StoreMags

Markets
For $150,000 You Can Kill This Rhino— And Save It
p68



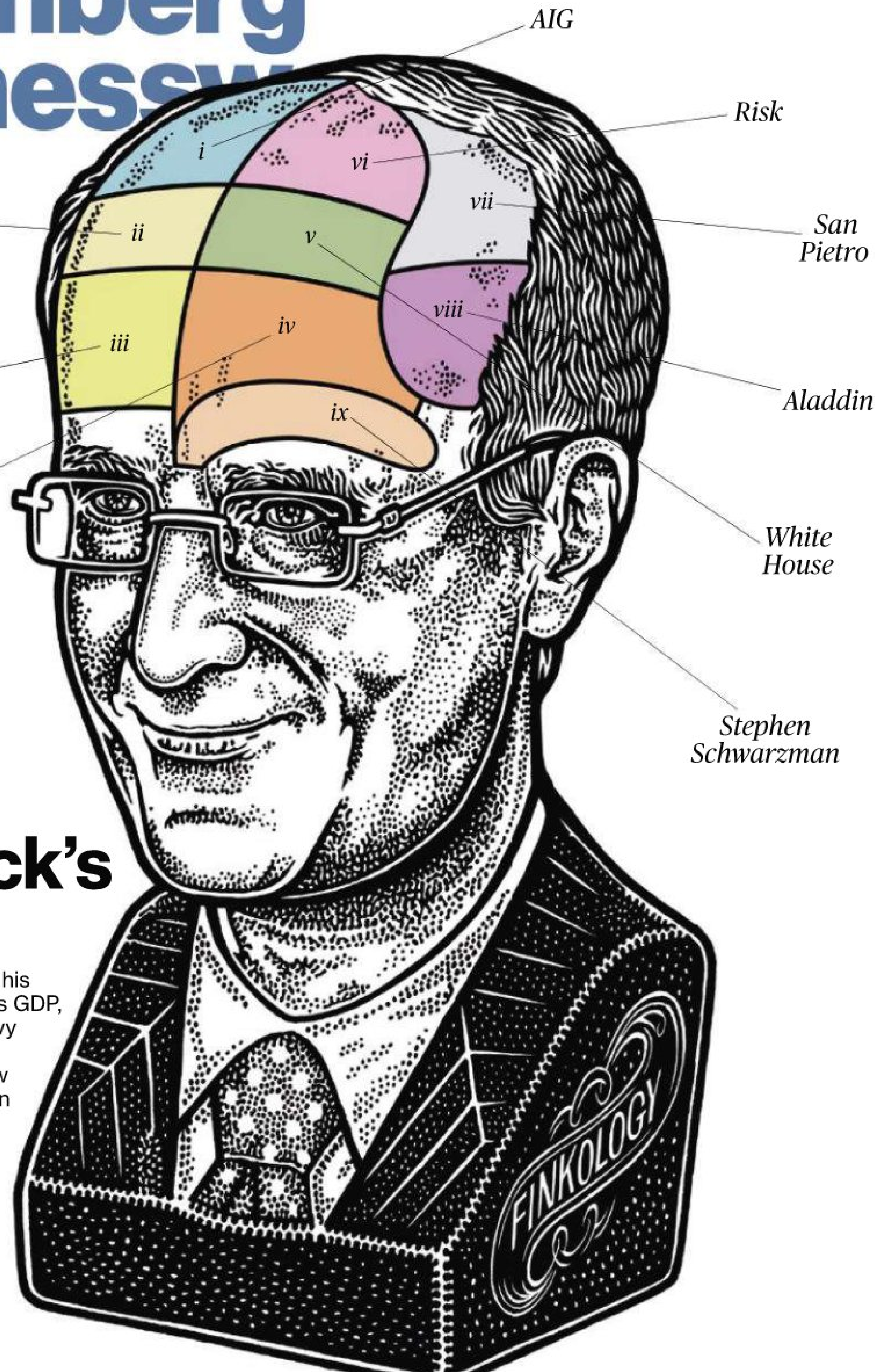
Economics
The Real Impact Of Jobless Benefits
p11

Opening Remarks
WHAT WAS GROUPON THINKING?
p6

Plus
Carlyle's Plans to Go Public p47
Oprah Starts Over p21
Inside the Korea Trade Deal p31
Mobile Wants Seniors to Text p41
Psst. Wanna Buy a Watch? p96

December 13 — December 19, 2010 | businessweek.com

Bloomberg Businessweek



BlackRock's Brain

With more money on his books than Germany has GDP, Larry Fink is the envy of Wall Street. What he wants now is a little recognition

p60

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags



StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags
StoreMags - Free Magazines Download in True PDF format



Release: StoreMags & Fantamag. Magazines for All

StoreMags



StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Bloomberg Businessweek Contents



Marketing steamroller
Hot chocolate, part of "the Mannheim lifestyle" p87

Opening Remarks 6

Groupon's snub of Google's $6 billion bid caused a sensation in the land of tech. It marks a new bubble, new hubris, or new faith in IPOs. Maybe all three. A calm look at this breathless tale

Global Economics 11

The cost of benefits
The tax deal's extension of jobless checks will raise unemployment some, but it will also boost growth

- India: Unsafe at any speed p12
- Behind Brazil's $985 iPads p13
- Guiding China's soft landing p14
- Shades of Argentina in the euro zone's crisis p16
- Tom Keene's EconoChat p16
- Seven days ahead p18

Companies & Industries 21

Oprah's cable gamble
Despite the hype, the Queen of Talk's new network carries plenty of risk

- The boom in big, big ships p22
- A dairy giant's outlook sours p23
- The globe gets warmer, and business adapts p25
- A new way to sell shirts p26
- Pfizer's messy succession p28
- Briefs p28



Her OWN Will viewers follow Oprah to cable? p21

Politics & Policy 31

Anatomy of a trade deal
Obama teamed up with Ford, unions, and lawmakers to help cinch a pact with South Korea

- A Postal Service bailout? p33
- San Diego's tough-love pension proposal p34
- Consumer finance watchdog Warren woos state AGs p35
- Facebook's friends in D.C. p36

Technology 39

My stuff is your stuff
Online rental markets let people wring value from cars, tools, or anything else they aren't using

- China's handset makers are gaining on the global giants p40
- Getting Grandma to text p41
- Apple quietly makes a pitch to businesses p42
- A helmet that could help cut football concussions p44

Markets & Finance 47

Carlyle's comeback
Seeing an improving economy, the firm is making deals again and considering an IPO

- A bookkeeping brouhaha p48
- Who's bullish on stocks p49
- Australia's apartment king p50
- Investments meant for the wealthy are burning retirees p51
- Charlie Rose/David Einhorn p52
- Bid & Ask: The week's deals p54



Rare breed Africa's black rhino population fell to below 2,500 by 1992

Features 60

The Colossus of Wall Street
BlackRock controls more money than Germany has GDP, but few beyond Wall Street understand its influence. CEO Larry Fink aims to change that p60

The Sacrifice
In Africa, hunters are paying $150,000 to kill a black rhino—legally. Why conservationists are embracing the notion that this may help save the species p68

Welcome to the Hotel Long Shot
Can service and style triumph over a financial crisis? An inside look at New York's Eventi, a $600 million bet that the answer is yes p76

Etc. 87

Steamrolling Christmas
How kitschy New Age group Mannheim Steamroller became the kings of holiday music, topping even Elvis

- **Branding** Like many sports traditions, college football's bowl season keeps getting bigger—and sillier. Ready for the Beef 'O' Brady's Bowl? p90
- **Hands On** Tech gadgets for the most persnickety people on your holiday list p92
- **Next Life** A former real estate lawyer whips up cupcakes for men p94
- **Consuming** The price on that Cartier (or even Rolex) watch may be negotiable p96
- **The Stack** From $35,000 commodes to getting safaris expensed, the leaders of Merrill Lynch and BofA had a lot on their minds as the economy spiraled down p98
- **Hard Choices** Vernon Hill on taking his banking business model to London p100

COVER: MATTHEW GREEN; RHINO: JAMES OATWAY; THIS PAGE: RHINOS: JAMES OATWAY; OPRAH: AMY SUSSMAN/DISCOVERY COMMUNICATIONS/GETTY IMAGES

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

Index



A B C

AB Electrolux 90
Abramovich, Roman 99
Abu Dubai Investment Authority 60
Administaff (ASF) 49
Aetna (AET) 54
AGL Resources (ATG) 54
Airbnb 39
Aliph 92
Allianz RCM Tech. Fund 49
Allied Nevada Gold (ANV) 49
Altria (MO) 28
Amazon.com (AMZN) 6, 26, 49
American Gramaphone 87
American International Group (AIG) 60
Anthony, Marc 94
AOL 6
Aon Hewitt 12
Apple (AAPL) 6, 12, 36, 42, 49, 52
Arsenal 18
Aster 54
Attributor 26
AT&T (T) 41, 42
Australand 50
Australian Broadcasting 50
Avon Products (AVP) 26
Blackstone Group 60
Bank of America (BAC) 60, 76, 98
Bank of Japan 18
Barclays (BCS) 48, 60
Barnes & Noble (BKS) 28
Battery Ventures 26
Baucus, Max 31
BBVA Compass 90
Beef 'O' Brady's 90
Beijing Tianyu Communication Equipment 40
Bell Helicopter 90
Bernanke, Ben 60
BlackRock (BLK) 60
Blackstone Group 47
Blankfein, Lloyd 60
Blatt, Gregory R. 28
Bloomingdale's 98
Boeing (BA) 99
Borders (BGP) 28
Brin, Sergey 99
Brown Brothers Harriman 16
Bryant, John A. 28
BTG Pactual 54
Camp, David 31
Capital Economics 14
Capital One (COF) 90
Carlyle Group 47
CarQuest 90
Cartier 96
Chick-fil-A 90
Citigroup (C) 60
Claren Road Asset Mgmt. 47
Clarkson 22
CLSA Asia-Pacific Markets 14
Coca-Cola (KO) 54
Columbia Asset Management 49
Columbia Select Large Cap Growth Fund 49
Commerce Bank (CBSH) 100
Commscope (CTV) 47
comScor (SCOR) 41
Consilium Investment Management 16
Conway, William E. 47
Costco (CSCO) 28
Coty 28
Credit Suisse (CS) 23, 47, 60
Crown Media Holdings (CRWN) 21
Cue Acoustics 92

D E F

Daewoo Shipbuilding & Marine Engineering 22
Daimler 12
D'Aniello, Daniel A. 47
Davis, Chip 87
Dean Foods (DF) 23
De La Rue 54
Dell (DELL) 26, 42
Del Monte Foods (DLM) 28
Delta (DAL) 28
Demchick, Jules 76
Demographia 50
Deutsche Post 33
DFC Associates 16
Digital Sky Technologies 6
Dimension Data 42
Dimon, Jamie 35, 60
DirecTV (DTV) 21
Discovery Communications (DSCA) 21
Dodgeball 6
Donahoe, Patrick R. 33
Donohue, Thomas J. 31
DoubleClick (GOOG) 6
Dragonomics Research & Advisory 14
Dr. Scheller 28
Duke Energy (DUK) 28
DuPont (DD) 25
eBay (EBAY) 39
Edwards, John 99
Einhorn, David 52
Electricité de France 54
ESPN (DIS) 90
Evercore Partners (EVR) 60
Evergreen Marine 22
Facebook 6, 36, 39
Fannie Mae (FNM) 60
FedEx (FDX) 18, 33, 90
Finisar (FNSR) 49
Fink, Larry 60
FNAC 12
Ford (F) 12, 31
Foresight Analytics 76
Foursquare 6
Fox (NWS) 21
François-Charles Oberthur Fiduciaire 54
Freddie Mac (FRE) 60
Froman, Michael 31

G H I

galleryfurniture.com 90
GE (GE) 60
Geithner, Timothy 31, 60
General Electric (GE) 25, 26
General Mills (GIS) 18, 23
General Motors (GM) 31
G'Five International 40
Gleacher 42
GoDaddy.com 90
Goldman Sachs (GS) 6, 14, 25, 28, 60, 98
Google (GOOG) 6, 36, 40, 99
Grassley, Chuck 60
Great Call 41
Group Danone 23
Groupon 6
Growthink Securities 51
Hallac, Charles 60
Harpo Productions 21
Hewlett-Packard (HPQ) 42
Hill Jr., Vernon W. 100
Honda Motor (HMC) 12
Host Hotels and Resorts (HST) 76
HSBC (HBC) 76
Huawei Technologies 40
IAC (IACI) 28
IBM (IBM) 42
Interactive Brokers (IKBR) 23
International Data Group 12
iSuppli 40

J K L

Jackson McClenny Investments 51
J.C. Flowers 54
J. Hilburn 26
Jobs, Steve 42
JPMorgan Chase (JPM) 35, 60
Kapito, Rob 60
Kellogg (K) 28
Kim, John Hoon 31
Kimpton Hotels and Restaurants 76
Kindler, Jeffrey 28
King, Bob 31
KKR (KKR) 47
Kleiner Perkins Caufield & Byers 6
Koch, William 99
Kohl's (KSS) 21
Kopeyka 54
Kraft (KFT) 90
Kravis, Henry R. 47
Lactalis 23
Lee, Myung Bak 31
Levin, Sander M. 31
Levi Strauss 25
LG Electronics 22, 40
Liberty Global (LBTYA) 54
Little Caesars 90
LivingSocial 6
Lodging Econometrics 76
Lopez, Jennifer 94
Lumen Advisors 16
Luxury Institute 26
LVMH Moët Hennessy Louis Vuitton 12, 76

M N O

MAACO 90
Manchester United 18
Mandela, Nelson 98
Marriott Intl. (MAR) 76
Mason, Andrew 6
Match.com 28
Mathes, Thomas 76
McCain, John 90
McDonald's (MCD) 100
McKinsey 33
MediaTek 40
Medical Capital Holdings 51
Mediterranean Shipping (MSC) 22
Meineke 90
Meriton 50
MetLife (MET) 60
Miami Heat 18
Microsoft (MSFT) 6, 36, 42
Miller Tabak 28
Mittal, Lakshmi 99
Morgan Stanley (MS) 47, 60, 76
Morningstar (MORN) 60
Motorola (MOT) 40
MTV Networks 6
Mubadala Development 47
Mulally, Alan R. 31
NBC (GE) 21, 87
NBTY 47
Neato Robotics 92
Neptune Orient Lines 22
New York Knicks 18
New York Stock Exchange (NYX) 60
Nicor (GAS) 54
Nike ((NKE) 60
Ningbo Bird 40
Nokia (NOK) 40
NYSE (NYX) 18
Obama, Barack 11, 31, 35, 90
O'Neal, Stanley 98
OnLive 92
OpenTable 6
OPI 28
Oracle (ORCL) 18

P Q R

Page, Larry 99
Panerai 96
Pantech 41
Parker, Sarah Jessica 28
Parnassus Investments 49
Parnassus Small Cap Fund (PARSX) 49
People's Bank of China 14
PepsiCo (PEP) 54
Peter J. Solomon 60
Petroleo Brasileiro (PBR) 12
Pfizer (PFE) 28
Philosophy 28
Pier 1 (PIR) 18
Pimco 16, 60
Piper Jaffray (PJC) 41, 42
PitchBook Data 47
PlayStation 92
PNC Financial Services (PNC) 60
Poulan Weed Eater 90
PricewaterhouseCoopers 48, 76
Primavera Capital Group 14
Protective Sports Equipment 44
Provident Royalties 51
Qantas 99
Quantum Emerging Growth Fund 16
Ray, Rachael 94
Read, Ian 28
RelayRides 39
Roberts, George R. 47
Rolex 96
Royce 49
Royce Low-Priced Stock Fund 49
Rubenstein, David M. 47

S T

Saks Fifth Avenue (SKS) 96
Salesforce.com (CRM) 42, 49
Samsung 40
Samsung Electronics 12, 41
Samsung Heavy Industries 22
Sanders, Jerry 34
Sanofi-Aventis (SNY) 42
Schlosstein, Ralph 60
Schwarzman, Stephen 47
Second to None 96
Shale Royalties 51
Share Some Sugar 39
Skype 76
Smith Travel Research 76
SnapGoods 39
Solomon, Peter 60
Sotheby's (BID) 18, 54
Spielberg, Steven 98
Spride Share 39
Sprint Nextel (S) 41
Standard Chartered 14
Starbucks (SBUX) 76
Starwood Hotels and Resorts Worldwide (HOT) 76
State Street (STT) 60
Steinberg, Saul 99
Stockland 50
Summers, Lawrence H. 31
Suzuki 12
Swiss Re 25
Tata Motors (TTM) 12
TCL Communication Technology 40
Telenor 40
Tencent 6
Tendências Consultoria Integrada 12
Thain, John 98
Time Warner (TWX) 6
Tippr 6
Tishman Speyer 60
Tourneau 96
Toyota Motor (TM) 12, 26
TPG Capital 47
Triguboff, Harry 50
Trump, Donald 99
Turner, James L. 28
Twitter 39

U V W

UBS (UBS) 14, 60
uDrove 90
United Parcel Service (UPS) 33
Verizon (VZ) 92
Verizon Wireless 41
Volcker, Paul 48
Wagner, Susan 60
Walker & Dunlop 18
Wal-Mart Stores (WMT) 28
Walt Disney (DIS) 24
Wang, Vera 28
Warren, Elizabeth 35
WhipCar 39
Wiley (JW.A) 94
Wimm-Bill-Dann Dairy and Juice (WBD) 54
Woodward, Bob 98

X Y Z

X5 Retail Group 54
XpanD 92
Yahoo! (YHOO) 6
Yelp 6
YouTube 6
Zilok 39
Zipcar 39
Zoom Technologies 40
ZTE 40
Zuckerberg, Mark 6, 36
Zurich Financial Svcs. 25
Zynga 6

Corrections & Clarifications

B In "A More Perfect Union?" (Opening Remarks, Dec. 6), a map located Slovakia incorrectly. The nation labeled as Slovakia was the Czech Republic.

How to Contact Bloomberg Businessweek

Editorial 212-617-6231
Sales 212-617-2900
Circulation 800-635-1200
Address 731 Lexington Ave., New York, NY 10022
Email bwreader@bloomberg.net
Fax 212-617-9065
Customer Service PO Box 8418, Red Oak, IA 51591-1418
Email bwkcustserv@cdsfulfillment.com

Letters to the Editor can be sent by e-mail, fax, or regular mail. They should include address, phone number(s), and e-mail address if available. Connections with the subject of the letter should be disclosed, and we reserve the right to edit for sense, style, and space.

StoreMags
StoreMags - Free Magazines Download In True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags

Designed to perform
to the high standards
you expect from Canon.

Same here.



At Canon, we're proud of our factory-level service. It matches the quality of our products.
To learn more, call us at 1-800-OK-CANON or visit us on the web at usa.canon.com/satisfaction

SERVICE & SUPPORT
World Class. Here at Home.



Snap the code to learn more about Canon Service & Support. Get the mobile app at gettag.mobi

Canon

© 2010 Canon U.S.A., Inc. All rights reserved. Canon, PIXMA, PowerShot, ELPH, EOS, REALiS and VIXIA are registered trademarks of Canon Inc. in the United States.

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Opening Remarks

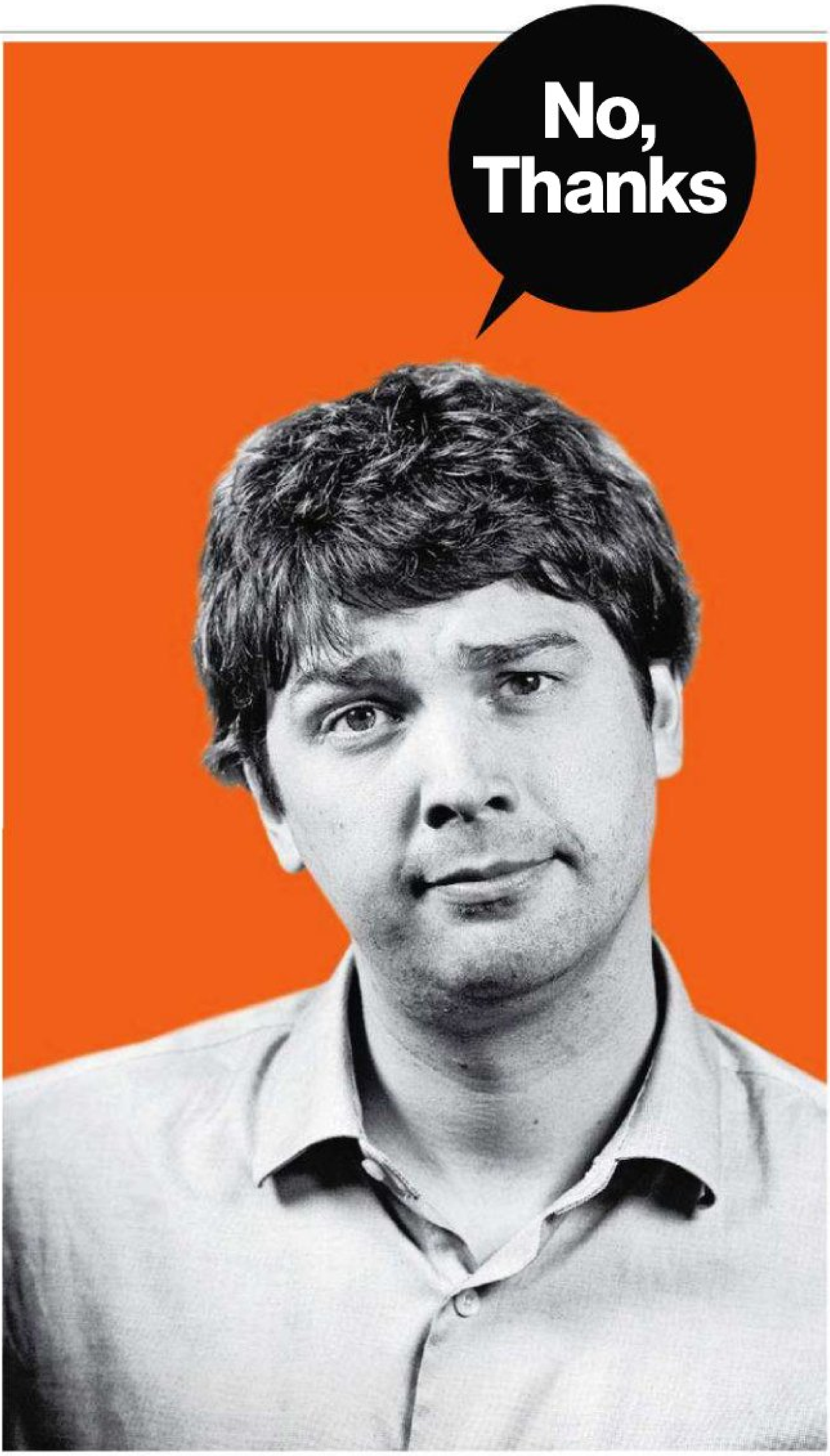
Groupon's $6 Billion Snub

The coupon startup's rebuff of Google marks a dramatic shift in ... something. A calm look at a breathless tale. By Brad Stone and Douglas MacMillan

Every so often in the land of high tech, a large merger or acquisition is assigned epochal significance, as if it marked a geologic shift under Silicon Valley. The AOL-Time Warner merger in early 2000, which ultimately evaporated some $200 billion in shareholder equity, was soon seen as the gateway to the dot-com bust. Six years later, Google's $1.65 billion purchase of video sharing site YouTube supposedly put the Valley back on track and ushered in the Web 2.0 boom.

Even failed buyout attempts, it seems, can be portentous. On Dec. 3, news began to spread that Groupon, a website specializing in local shopping deals, had rejected a staggering $6 billion buyout bid from Google—and an army of tech analysts, bloggers, and tweeting entrepreneurs has been deconstructing the snub ever since. According to these armchair observers, the spurned marriage proposal marks either the creation of a new tech bubble (is it Bubble 2.0 or 3.0?), the emergence of a new strain of entrepreneurial hubris, or a surging faith in the long-awaited return of the initial public offering market for risky but rapidly growing new Internet companies. Or all three.

What no one disputes is that the Chicago startup, just two years old in November, has discovered a novel method of local advertising that shows a remarkable level of profitability and revenue growth (an estimated $500 million a year and counting). Groupon sends out a daily e-mail to 35 million subscribers in more than 300 cities around the world. It has a staff of around 3,000, including many phone jockeys who sit in a Chicago warehouse and entice local businesses to offer steep discounts on their wares in exchange for driving more foot traffic to their stores and perhaps snaring new customers. Then a cadre of writers, many



NOAH BERGER/BLOOMBERG

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

with backgrounds in stand-up comedy, uses piquant prose to describe discounts on everything from pastries to spa treatments to flying lessons—typically one deal a day in each market. When enough people sign up for a given deal, Groupon splits the revenues 50-50 with the local business, and everyone seems happy. "We think the Internet has the potential to change the way people discover and buy from local businesses," says Andrew Mason, Groupon's 30-year-old chief executive officer, who went from playing in a Billy Joel tribute band to counting his millions in a few years. "What we've done so far at Groupon is just the beginning."

Groupon's rejection of Google's $6 billion—a number worth repeating, since the search giant's previous largest acquisition was $3.2 billion for DoubleClick, in 2008—is as polarizing a move as Silicon Valley has seen in recent memory. (Neither would comment on or even acknowledge the unconsummated transaction.) Groupon's business model, skeptics argue, requires no special technology and is too easily copied for the young company to flourish for long. "You can set up your own daily deal website in an hour," says Ira S. Weiss, a professor at the University of Chicago Booth School of Business. Rival startups include Tippr, based in Seattle, and Amazon.com-backed LivingSocial, based in Washington, D.C. Among the more established players are review site Yelp and restaurant reservations king OpenTable. Casting even more uncertainty on the market, local businesses are likely to take advantage of this competitive heat to pressure deal sites to cut their commissions. "I would have taken that $6 billion in a heartbeat," says Paul Kedrosky, a venture capitalist and Bloomberg.com contributor. "I would have been knocking over random strangers to accept it."

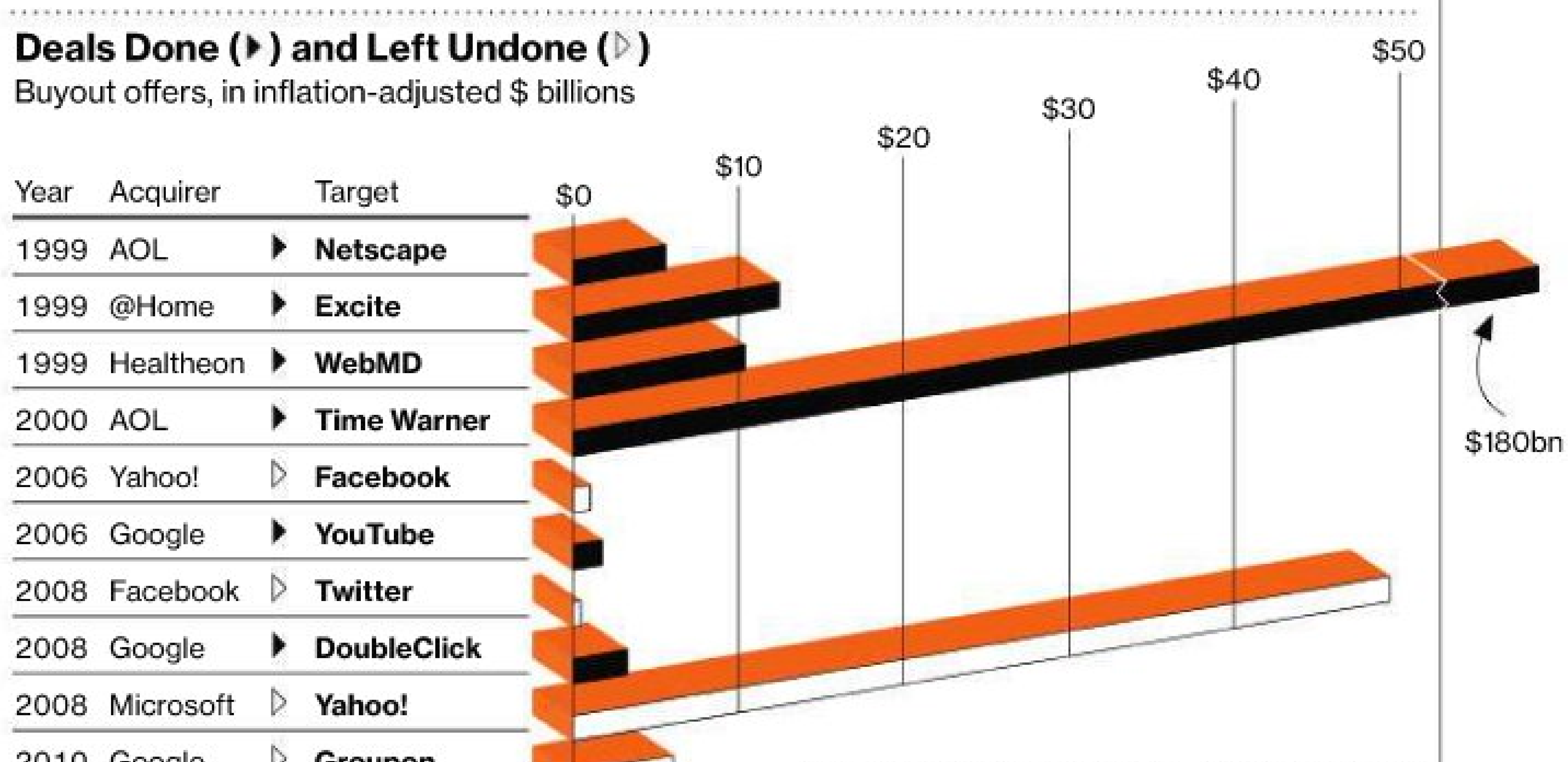
Groupon's true believers, on the other hand, are ready to vote Mason into the Web Entrepreneur Hall of Fame, alongside Facebook's Mark Zuckerberg, another baby-faced CEO who walked away (wisely, we know now) from billion-dollar offers from Yahoo! and MTV Networks. They point out that Groupon has critical competitive advantages in its crowded market—a strong lead and a powerful brand—and has the potential to build a local advertising juggernaut that could one day sit beside Yahoo, AOL, and Google. "I can empathize with having a vision for a company," says Dennis Crowley, co-founder of New York startup Foursquare, which lets people use their mobile phones to "check in" at various locations. Crowley sold his previous startup, Dodgeball, to Google in 2005 but is said to have spurned a $100 million buyout offer for Foursquare by Yahoo earlier this year. True entrepreneurs, he says, "want to build and execute on that vision."

Groupon's decision to stay independent was likely made possible by the ministrations of its Russian investor, Digital Sky Technologies (DST), which poured $135 million into Groupon in April and has made a practice of buying back equity from executives and venture capitalists, thus relieving pressure to sell. (DST, which is partly backed by Goldman Sachs and Chinese Web giant Tencent, has also invested in Facebook and social game maker Zynga.) Groupon hasn't released specific numbers, but Mason has said he cashed out some of his holdings, which one person familiar with his stake put at 10 percent of the company—freeing Mason to shoot the moon without worrying about losing everything.

For Google, the rebuff may summon up some bad memories. Several other startups it has recently pursued, including Yelp, opted to stay private, reflecting a fear among entrepreneurs that their babies will get lost inside Google's giant, chaotic nursery of ideas. There's also a sense, reinforced by a recent $1,000 cash bonus and 10 percent raise that Google paid all its employees, that the search giant is going to extraordinary lengths to retain top talent because its stock, down 4.7 percent this year, isn't the rocket it once was. "It used to be people were fine taking Google's money and stock, because they believed it would appreciate rapidly," says Kedrosky. "Now it's not as attractive."

After souring on Silicon Valley suitors, Groupon and its backers may be eyeing Wall Street. The public markets generally have frowned on risky Net plays over the past six years. A signature Web IPO for the new decade now seems inevitable—whether it's Groupon, Zynga, or even Facebook—and will mark the end of a period when acquisition by a company such as Google, Microsoft, or Yahoo defined success. "Who is going to be the next Google? Who is going to be the next Amazon? Who is going to be the next Apple? The great companies we all look up to and admire are the ones that stuck around and fought," says Jason Fried, a Groupon board member. "I hope Groupon has a chance to become one of those great companies."

Whether Groupon's jilting of Google has deeper meaning—and whether Mason and his crew were prudent or quixotic—depends on how the move plays out. If Groupon can defend its turf and further lodge its brand in consumer minds, it may be on its way to a 2011 IPO that adds yet another zero to its Miracle-Gro valuation. Just as likely, a new generation of entrepreneurs will get inspired and ratchet up their own insouciance to suitors. Investors seem worried that such a trickle-down effect is the most likely legacy of this episode. "It changes everybody's frame of reference for what companies early in their life cycle can be worth," says Matt Murphy, a partner at VC firm Kleiner Perkins Caufield & Byers. "More people come to you saying, 'I think my business could be worth a billion dollars. Look at Groupon.'" **B**



DATA: NATIONAL VENTURE CAPITAL ASSN., BLOOMBERG

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

FOURTH IN A SERIES OF FOUR

Advertisement

Make Your Mark





A Happy Accident
Angela Jia Kim's unpleasant reaction to synthetic ingredients in skin cream led her to create her own all-natural brand of lotion, and, in turn, a successful entrepreneurial community.

From age three, Angela Jia Kim's life revolved around practicing the piano. As an adult, she became a professional concert pianist and traveled nationwide 200 days a year. In fact, she would probably still be performing professionally had she not had a bad reaction to some skin cream six years ago.

During a short break before a 2004 performance in Chicago, Kim wandered into a shop and tried one of the many skin creams available to sample. A short while later, as she prepared to go on stage at the concert hall, she broke out in hives. Embarrassed and uncomfortable, she managed to finish her performance but wanted to know what had caused the reaction. So she pulled the skin cream she had purchased out of the bag and was horrified to see that the majority of the 55 ingredients were toxic chemicals.

Confident that she could formulate her own all-natural skin cream that was both luxurious and moisturizing, Kim began a daily regimen of testing various combinations of ingredients, starting with olive and avocado oils. Her testing continued for more than two years and more than 1,000 tries, until she found "the one." To be sure her mixture was all that she expected, she sent a sample to a cosmetic chemist, who helped tweak the ph balance and fragrance.

Proud of her handiwork, Kim packaged up a sample and gave it to a friend, who gave some to her mother, who called immediately to order 13 more jars to give as gifts. Growth by word-of-mouth began immediately. She dubbed her brand Om Aroma, "because I was obsessed with yoga at the time." Although "it was never meant to be a business," she says, she soon realized that it could be, and that her skin creams provided a welcome creative outlet beyond the piano.

Tired of the constant travel, Kim opted to give up the piano in 2009 to focus on growing the Om Aroma brand. Lacking any business experience, she had to learn everything on her own. What she did have was the same passion, drive and persistence she found as a concert pianist. Through her new, creative approach to skin care, Om Aroma quickly caught the attention of major magazines, celebrities, spas and hotel chains, generating significant business opportunities.

Although product quality and effectiveness were Kim's original focus, over time her mission expanded. "Om Aroma is bigger than skincare," she says. "Our mission is to encourage people to live their dream."

> "Our mission is to encourage people to live their dream"

As the company grew, Kim recognized that her business could be growing even faster if she had access to more experienced entrepreneurs. Finding nothing like what she needed, she created a community of entrepreneurs, called Savor the Success (www.savorthesuccess.com). This online network, which began with 12 entrepreneurial women and now has more than 10,000 members, offers members training, tips and access to new business opportunities. "It is exactly what I needed back then," she says. Through Savor the Success she has seen "amazing things happen through other people." That is how Kim is making her mark every day, by inspiring and guiding fellow members of the small business community.

To learn more about Om Aroma and Savor the Success, tune into Bloomberg The Mentor® to see where small business gets the lifetime experience of successful CEOs. Only on Bloomberg TV, Thursdays at 9pm.

INK℠ FROM CHASE

Like Savor the Success, Ink from Chase offers tools to help you better manage and grow your business. Learn more at Chase.com/ink.

Make your mark with Ink.

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags



Beer, wine, cupcakes and Ink.℠ My recipe for Success.

Marlo Scott, owner Sweet Revenge.



I'm not your typical business owner. Which is why I'd never settle for a typical business card. Ink gives me twice the acceptance worldwide as American Express. And if I ever need cards for my employees, they're free. **Make your mark with Ink.**

Go to Chase.com/ink

CHASE WHAT MATTERS℠

CHASE

Acceptance rates based on global, not domestic, data. The Nilson Report, September 2009, Issue 933.
Ink cards are issued by Chase Bank USA, N.A. and are subject to credit approval.
© 2010 JPMorgan Chase & Co. All rights reserved.

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags



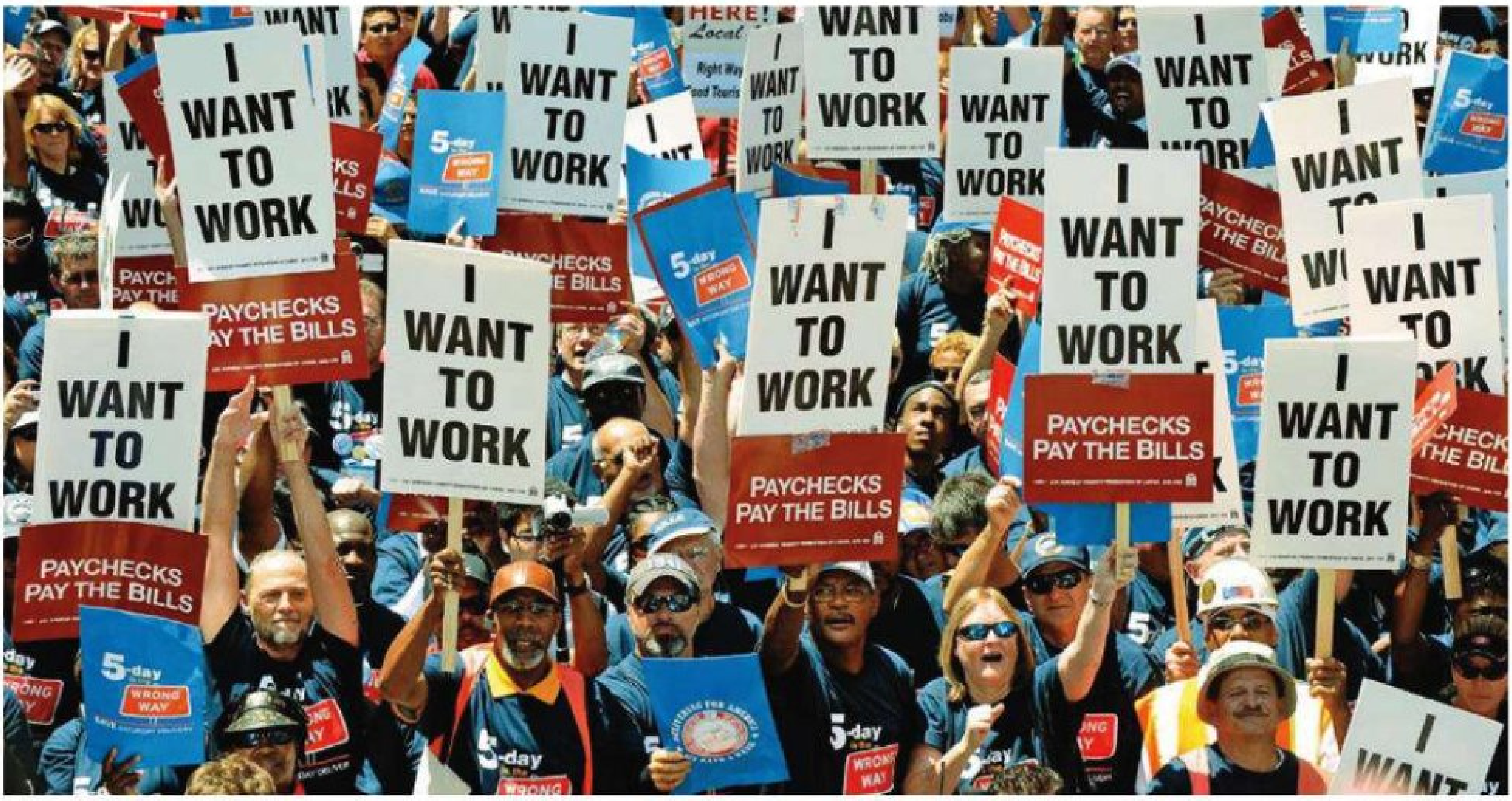
StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Contents ▶ More cars and deaths in India 12 ▶ Protectionism hurts Brazil's consumers 13 ▶ Economists' fave stats 14 ▶ An inflation-tackling conference in China 14 ▶ Argentina's default vets assess the euro 16 ▶ Tom Keene talks to Carl Weinberg 16 ▶ The week ahead 18 ● Edited by Christopher Power

Global Economics



MARK RALSTON/AFP/GETTY IMAGES

Jobless Benefits: Corrupting Or Compassionate?

▶ Extending benefits, a key to the tax deal, may keep some at home, but it will also boost growth

▶ "When that paycheck is taken away, you're living beyond your means"

For Democrats, the timing was awkward. On Dec. 7, the morning after President Barack Obama announced a tax-and-spending deal with congressional Republicans that will extend unemployment benefits for another 13 months, the Bureau of Labor Statistics announced that there were 3.4 million job openings as of the end of October.

In other words, millions of jobs are going unfilled at the same time that millions of out-of-work Americans are getting checks for being unemployed. That's red meat for free-market conservatives who dislike government meddling in the private sector. Under the deal's terms, wrote Erick Erickson, editor of the influential RedState blog, "we will also continue subsidizing unemployment–yes you read that right. At some point it becomes welfare, not unemployment compensation."

Obama is making no apologies for a provision he says will be a lifeline to the families of the unemployed as well as a stimulus to the economy. "There are people right now who, when the unemployment insurance runs out, will not be able to pay the bills," he said at a Dec. 7 news conference.

Liberal Democrats were angry that the budget deal preserves the Bush tax cuts for the highest-income families and pegs the estate tax at a lower-than-scheduled 35 percent, with a full exemption for estates worth less than $5 million. To fire up growth, the agreement also allows businesses to write off 100 percent of their capital spending as a business expense next year. Capital gains and dividends taxes stay at 15 percent.

Yet the deal includes plenty of help for lower-income Americans, including not only the unemployment benefit extension but also a temporary 2-percentage-point cut in the Social Security payroll tax and continuations of the earned-income and child tax credits.

Brokering a deal required giving both sides the goodies they wanted, so the deal contains more stimulus than most economists had expected. High Frequency Economics, an analyst group, raised its 2011 U.S. growth forecast to 3 percent from 2.5 percent. Goldman Sachs economists estimated the gross domestic product boost at a half to a full percentage point over previous expectations.

The one part of the deal that could irk some GOP stalwarts is the extension of jobless benefits. Do the extra checks make unemployment higher than it would otherwise be by paying people to sit at home? Or do the checks sustain growth by supporting the

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

spending power of households with out-of-work breadwinners?

In truth, unemployment benefit extensions do both–they raise the jobless rate a bit, and they make the economy grow faster. What's clear is that extending jobless benefits makes more sense when the unemployment rate is exceptionally high, as it is now, at 9.8 percent in November. Although there may be a lot of jobs open at any given moment, most are quickly filled because there are so many job seekers. That makes the 3.4 million jobs open on the last day of October seem less impressive. And because aid to the jobless is almost immediately spent (as opposed to tax refunds for the wealthy), it is the most effective means of stimulating demand, the nonpartisan Congressional Budget Office said in a Sept. 28 report.

The deal struck by Obama on Dec. 6 came a week after the expiration of the latest extension of unemployment benefits. If Congress rejects it, about 2 million people will begin to lose extended unemployment benefits this month, and about 7 million will lose them by November 2011, according to the President's Council of Economic Advisers. Although state unemployment benefits ordinarily last just 26 weeks, Congress has passed a series of federal extensions that give people up to 99 weeks–nearly two years' worth. The deal would keep those extensions in place through the end of 2011. Ninety-nine weeks, however, would still be the maximum.

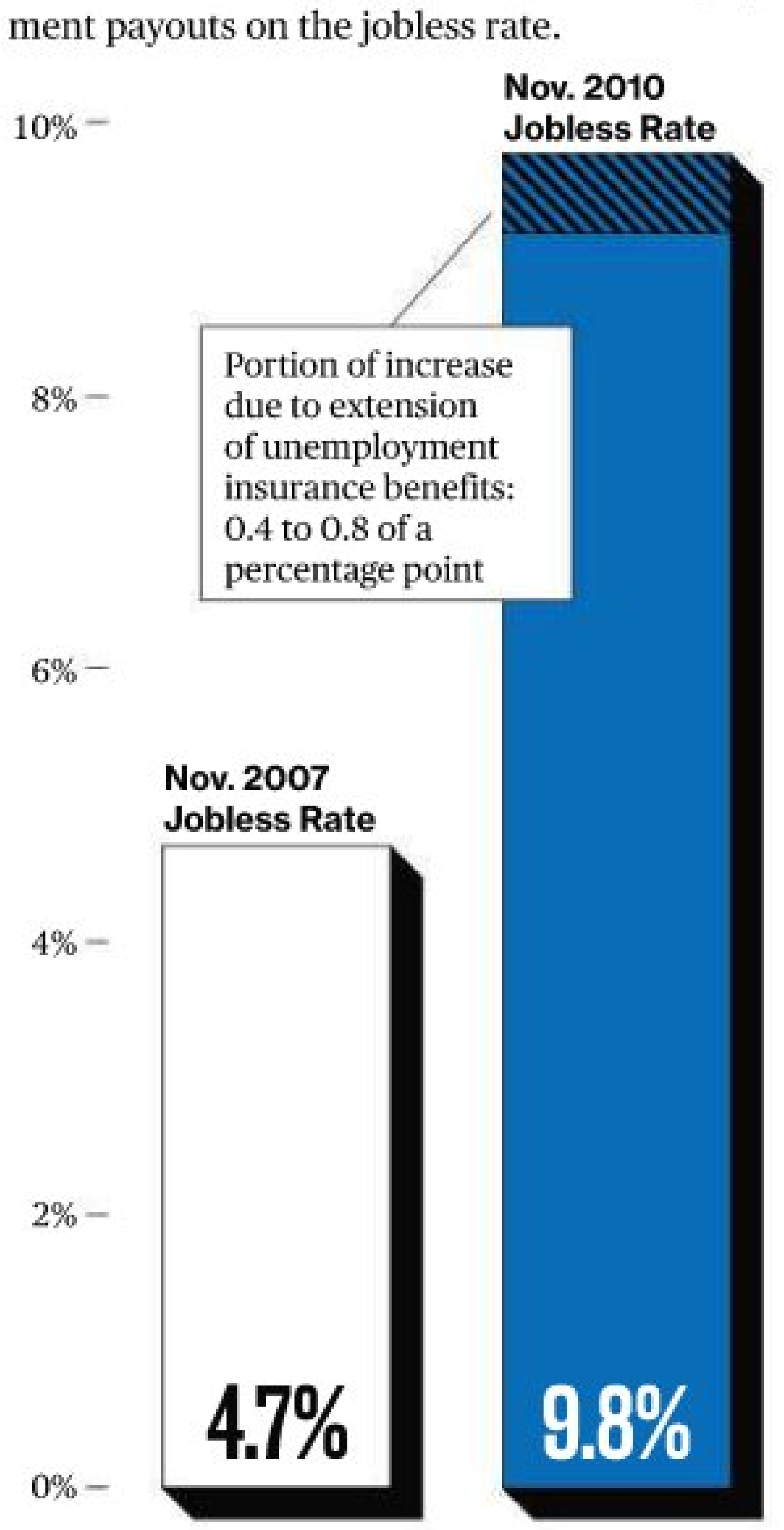
Economists have long known that unemployment benefits induce some people to pass up available jobs. But how many people? In April, Rob Valletta and Katherine Kuang, economists at the Federal Reserve Bank of San Francisco, used a simple but clever technique to answer the question. They looked at whether the duration of unemployment was longer for people who lost their jobs (and thus were probably collecting unemployment insurance) than for people who voluntarily left their jobs or were new entrants to the labor force (and were less likely to be receiving benefits). They found only a small difference, implying by their calculation that the extension of benefits added about 0.4 percentage point to the jobless rate in late 2009. At the request of *Bloomberg Businessweek* they did an update through November 2010 that yielded a new estimate of 0.8 percentage point. "I can't make a strong case for which is correct," Valletta wrote in an e-mail.

Anthony Roebuck, 44, a union sheet metal worker from Brighton, Colo., who was laid off from a construction company in April, scoffs at the notion that he would pass up a job because he'd rather collect unemployment benefits. The AFL-CIO put a reporter in touch with him by phone. Finding work is partly a matter of pride and partly a matter of necessity, Roebuck says. Jobless benefits aren't enough to live on: "When you're in the working part of America, you typically live to what your paycheck is, aside from putting a little money aside. When that paycheck is taken away, you're living beyond your means."
—*Peter Coy, with Albert R. Hunt*

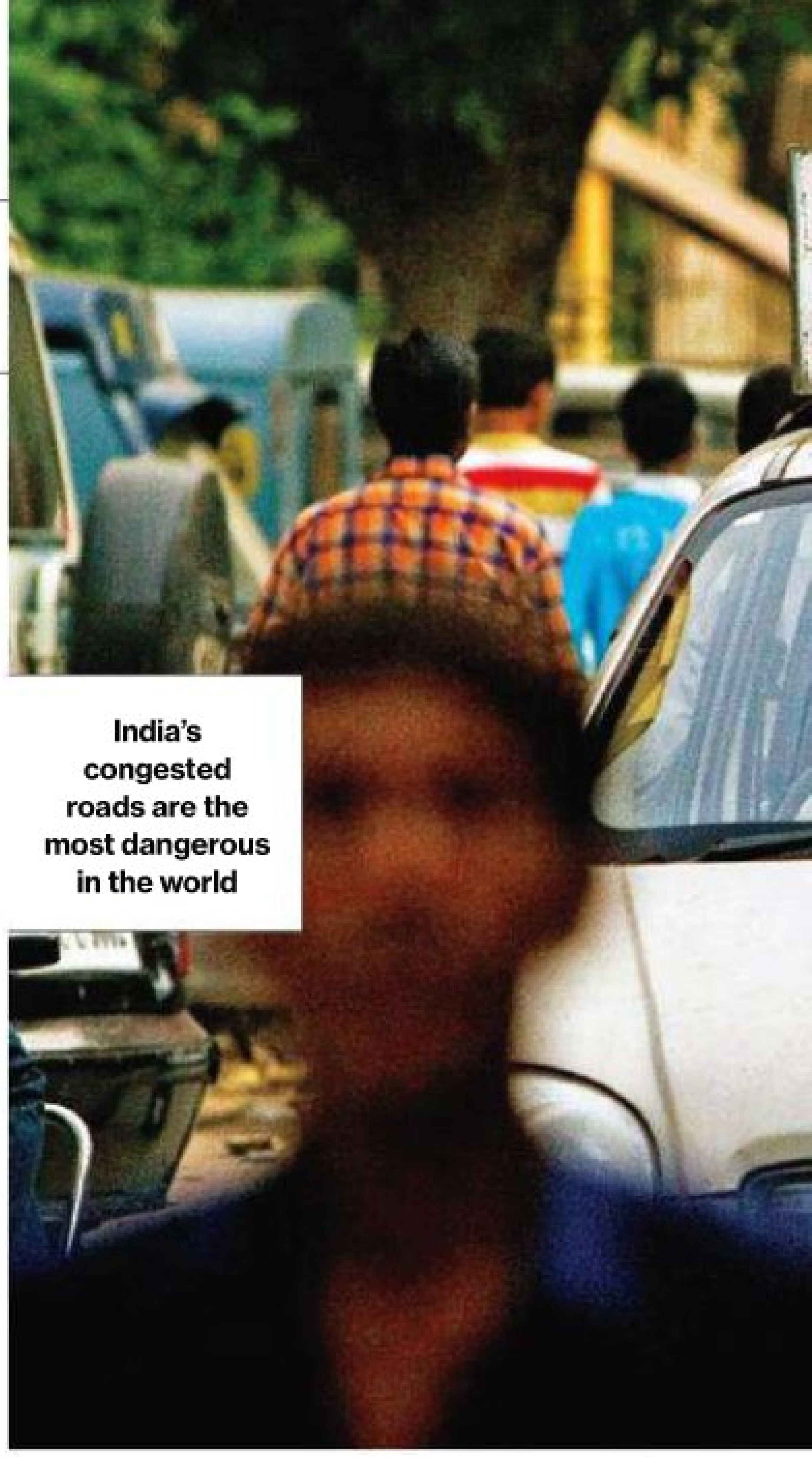
The bottom line *Although the Obama-GOP tax deal extends unemployment benefits, it probably will not dissuade many jobless from seeking work.*

The Impact of Jobless Benefits

By comparing the experience of workers who voluntarily left their jobs with those who were laid off, Federal Reserve researchers reached an estimate of the impact of extended unemployment payouts on the jobless rate.



DATA: ROB VALLETTA AND KATHERINE KUANG, FEDERAL RESERVE BANK OF SAN FRANCISCO



India's congested roads are the most dangerous in the world

JACOB SILBERBERG/PANOS PICTURES

Transportation

Driving in India: Cars, Corruption, Collisions

- As new cars pour onto India's roads, deadly accidents increase
- "Driving licenses can sometimes turn into licenses to kill"

A pack of about two dozen men stand outside the front gate of the Mumbai Road Transport Office, the Indian city's version of the Motor Vehicles Dept. As residents head inside to do battle with the bureaucracy, the men swarm around them, offering pain-free shortcuts through the red tape for just 3,000 rupees ($65). "What do you want–a driver's license or learner's permit without a test?" asks a man identifying himself only as Rafiq. "It will happen," he promises. Like the other "agents" at the front gate, Rafiq specializes in paying $1 bribes to officials to cut down to a few hours a process that typically takes a full day.

More Indians are buying cars, and more carmakers are rushing to accommodate them. On Dec. 1, **Toyota Motor** launched a new locally built compact sedan, the Etios, aimed at budget-minded Indian drivers. You can't drive without a license, so there is big

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags



demand for men like Rafiq who can help new drivers get behind the wheel without taking exams or filling out paperwork. Some agents have as many as 30 employees on a monthly payroll, says Rafiq, who nets between 500 and 1,000 rupees a day. "There is a lot of competition here," he says. "In India, you can get a driver's license as easily as a chai," says Delphine Muhlbacher, president of the Headlight India safety advocacy group, referring to a local tea drink. "In this context, driving licenses can sometimes turn into licenses to kill."

Having illegally obtained their licenses, drivers often pay little attention to traffic laws. "There is absolute lawlessness on the streets," says Satyendra Garg, New Delhi's joint police commissioner for traffic. "Unless there is a policeman at every intersection, people don't obey any traffic rules." That helps make India's congested roads the deadliest in the world. According to a government report, crashes in India killed 119,860 people in 2008 (an average of 327 a day), compared with 37,261 fatalities in the U.S. Traffic accidents cost the nation about 3 percent of its gross domestic product every year, according to Indian government data.

The problem is likely to get worse. Auto sales in India are on pace for a record-setting year: Sales of passenger vehicles in October rose 38 percent from 12 months earlier, prompting automakers to say they may exceed a sales forecast of 2.4 million autos in the fiscal year ending Mar. 31. In fiscal 2001 just 615,000 cars were sold. Carmakers in India are benefiting from a $1.3 trillion economy that expanded 8.9 percent in the three months through September from a year earlier. Salaries may grow an average of 11 percent this year, the fastest rate in the Asia-Pacific region, according to human resources adviser Aon Hewitt.

To capitalize on the growing market, a race is on to introduce low-cost cars to India. The latest is the Etios. Priced at 496,000 rupees ($10,900), it is the Japanese automaker's cheapest offering in India and will compete with low-cost small cars from **Honda Motor**, **Ford Motor**, and **Suzuki**. "We are aiming for a full-scale presence in India," Toyota President Akio Toyoda said at the launch of the Etios in Bangalore.

Since the Indian consumer is so price-sensitive, though, many made-in-India cars don't have safety features common to other markets, according to a recent government report on highway safety. Seat belts are the only safety feature that automakers must legally provide—even **Tata Motors**' ultracheap Nano car has them—yet the increase in car buying hasn't boosted demand for air bags or antilock brakes. "It will take time for all the manufacturers to add safety features to their cars," says C.V. Raman, chief general manager for engineering at Maruti Suzuki India, the nation's largest manufacturer, with about half the market. "We give customers a choice whether they want a fully loaded car with all the safety features or a car without those features at a lower cost."

Activists say India needs to learn from China, which has far more cars yet fewer deaths. There were 186 million vehicles on China's roads at the end of last year and 67,759 deaths, down 7.8 percent from a year earlier, according to China's Ministry of Public Security. The Chinese strategy to improve road safety has included a crackdown on drunk driving as well as increased fines for speeders caught on newly installed road cameras. "China is a different story,'' Garg says. "There is a strong enforcement of strong laws.''

Meanwhile, a bill to create an agency similar to the U.S. National Highway Traffic Safety Administration died in August. Parliament's transportation committee decided the proposed legislation wasn't comprehensive enough, created duplication among agencies, and didn't eliminate what the committee called "the menace of corruption."
—*Siddharth Philip*

The bottom line *As Indians grow more affluent and buy more cars, road safety is increasingly an issue. Fatalities exceed anything in China or the U.S.*

Trade

Don't Go to Rio For a Deal on an iPad

- **Stiff taxes on imports protect local manufacturers at a cost**
- **"Brazilians sometimes pay luxury-good prices for second-rate items"**

On the night of Dec. 2, almost 500 gadget-crazy Brazilians in São Paulo lined up outside electronics retailer FNAC's big store in Morumbi Shopping complex south of the city. They waited until midnight to buy the **Apple** iPad, which finally went on sale in Brazil months after its international launch. First in line was Joao Teofilo Ribeiro, who was so excited he brought his

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Dean Maki
Chief U.S. economist,
Barclays Capital

entire family to wait with him.

They weren't looking for a bargain. The iPad lists at FNAC and other Brazilian stores for $985, almost twice as much as in the U.S. and one of the highest official prices for an iPad anywhere, according to *Macworld Brazil*, a Brazilian newsletter run by U.S.-based International Data Group.

The iPad is one example of the many price distortions caused by Brazil's elaborate industrial policy. Companies that don't manufacture goods in Brazil have to pay stiff tariffs if they want to sell to the nation's consumers. Brazil levies a 60 percent tax on the iPad and as much as 90 percent on imported cars. A blouse that retails for $49.50 at The Gap in the U.S. goes for $82 in Brazil at non-Gap outlets. "Brazilians sometimes pay luxury-good prices for second-rate items," says tax specialist André Mendes Moreira, who writes a widely read financial column and tracks the impact of import taxes on everything from cars to champagne. "The consumer is at a clear disadvantage."

Brazil imposes these stiff taxes on imports to promote local industry and encourage foreign manufacturers to set up factories inside the country. **Samsung Electronics**, for example, has been manufacturing locally since 1986. It now makes the Galaxy Tab, its answer to the iPad, at one of its Brazilian plants. In contrast to Samsung, Apple is a hold-out. In March, Brazilian media reported that Chief Executive Officer Steve Jobs was asked by the city of Rio de Janeiro to set up the country's first Apple Store in time for the 2020 Olympics. Jobs refused, citing the superhigh taxation of important electronics. Apple confirms the episode.



First buyer Ribeiro: Brazilians pay twice the U.S. rate for an iPad

Protectionism shows no sign of easing under newly elected President Dilma Rousseff, says André Sacconato, an economist with one of Brazil's biggest consultants, Tendências Consultoria Integrada in São Paulo. Rousseff, a key minister under outgoing President Luiz Inácio Lula da Silva, backs an aggressive industrial policy. "She supports Lula's 'buy Brazil' approach," says Sacconato.

Today, in part because of protectionist policies, Brazil produces complex manufactured goods such as jets and oil platforms. Yet Sacconato says the economy would fare better if, instead of fencing out rivals, the government provided decent infrastructure and levied lower and fewer taxes. State-controlled companies support the buy Brazil policy. **Petroleo Brasileiro**, or Petrobras, buys about 70 percent of its oil production equipment locally, a practice often cited approvingly by outgoing President Lula. Petrobras Chief Executive Officer Jose Sergio Gabrielli says he supports the program, since it will provide jobs to Brazilians as Petrobras commercializes its latest oil discoveries.

Protectionism is not the whole story behind the $985 iPad. Most importers also charge a premium to cover the risk of fluctuations in the exchange rate and tax costs, according to Moreira. He says the importer premium adds to the cost of the Smart minicar. Made in Europe by Daimler's **Mercedez-Benz**, it sells in Brazil for $38,500, more than three times the base U.S. price.

The pain would be even deeper if it were not for the Brazilian real's 39 percent gain against the greenback since 2009, which cheapens the cost of imports. The devaluation of the dollar has encouraged "mules" to fly to Miami and New York to buy goods, then resell them in Brazil. That's the other way Brazilians can get an iPad. *—Lucia Kassai and Cecilia Tornaghi*

The bottom line *The $985 cost of an iPad in Brazil provides a vivid example of how the country's protectionist policies impact Brazilian consumers.*

Tipping Points

Seeking the Number That Explains It All

Is the U.S. poised for robust growth? Or is the expansion still anemic? If you go by payrolls, the economy remains in a rough patch. Other data give hope. Tax receipts are rising–showing that Americans have more income. Jan Hatzius, an economist at Goldman Sachs, looks at how fast households are paying down their debt. The paydown rate has slowed, he says, a sign consumers are more confident about the future. Here, four economists discuss their favorite indicators. —*Courtney Schlisserman*

Policy

Setting the Direction For China's Economy

▶ Senior policymakers gather to tackle the growing threat of inflation

▶ "If anyone is printing money, it is China's central bank"

Every year, China's President and Premier convene the Central Economic Work Conference, a three-day enclave in Beijing where senior policymakers, including the heads of the major ministries and China's largest state enterprises, set strategy and goals for the next 12 months. Decisions reached at the conference can affect trade and the health of the global economy. This year's conference, expected to open Dec. 10, will focus on how quickly the Chinese economy can grow without overheating, according to Janet Zhang, a macroeconomist at Dragonomics Research & Advisory in Beijing.

Zhang says President Hu Jintao and Premier Wen Jiabao may aim for 8 per-

FROM TOP: ILLUSTRATIONS BY ANDY FRIEDMAN; PAULO FRIDMAN/BLOOMBERG

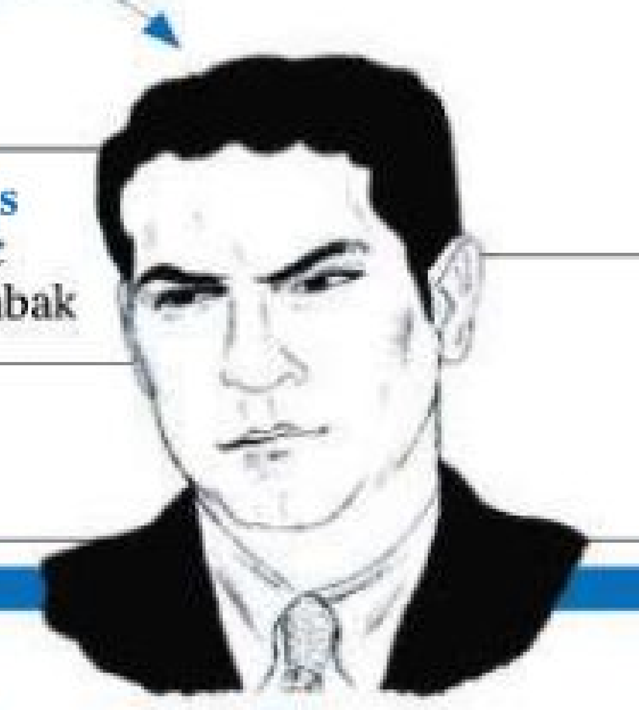
StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags



James Paulsen
Chief investment strategist, Wells Capital Management





Dan Greenhaus
Chief economic strategist, Miller Tabak

David Rosenberg
Chief economist, Gluskin Sheff + Associates



Real Consumer Spending

2.9%

Est. fourth-quarter annualized gain

Statistic to watch: Real consumer spending. "It grew 2.8 percent [annualized] in the third quarter, now it's tracking 2.9 percent by our estimates. When that 70 percent of the economy is growing at a solid pace, you need some shock to come along to disrupt spending."

Forecast: "We're past the period of worry that consumers wouldn't spend the money they're earning or earnings would fade into a downturn. When businesses and consumers are spending, that creates a virtuous cycle."

Productivity

2.5%

Third-quarter year-over-year change

Statistic to watch: Productivity. "Initially jobs don't show up in the recovery because we have a CEO culture that's focused initially on cost-cutting and productivity. But the good thing about that is when productivity slows down, then jobs show up. Productivity growth slowed in the summer and is now on a slower trend."

Forecast: "We're going to have job gains around 225,000 average monthly next year, and that means confidence is going to go up, consumer spending is going to go up, and corporations are going to say this looks sustainable."

Nonfarm Payrolls

39k

November job number

Statistic to watch: Nonfarm payrolls. "It's so clichéd and obvious, but it's jobs. The simple statement is growth is not enough. We are creating jobs, but we're not creating enough because we're coming from such a deep hole."

Forecast: "It's increasingly clear the economy is growing faster. The important part of the story here is that, yeah, things are going to get better, but it's by no means good. When the economy recovered in 1983, it averaged a near-8 percent growth rate."

Home Prices

0.6%

Annual home price gain through Sept.

Statistic to watch: The S&P/Case-Shiller 20-city index of home prices. "We seem to be getting another down leg in home prices. That has obvious implications for consumer confidence and home equity values. The wealth effect on spending from housing is almost three times as powerful as the stock market."

Forecast: "We had a mini-inventory cycle that brought us out of the recession. But outside of that, we've had Uncle Sam's generosity. There are three risks: deflationary shock out of Europe, dramatic spending cuts on the state and local level, and home prices."

StoreMags - Free Magazines Download in True PDF format

cent growth next year, and set official targets of 4 percent inflation and 6.5 trillion yuan in new loans, down from 7.5 trillion this year.

During the conference, China is expected to announce the latest inflation figure, which a survey of Bloomberg economists predicts will be 4.7 percent, a three-year high. "We expect the [People's Bank of China] to hike benchmark interest rates around the time of the data release and tighten liquidity conditions," wrote Beijing-based UBS economist Wang Tao in a report on Dec. 2. The Politburo announced on Dec. 3 that it will move to a "prudent" or "stable" lending policy from a "moderately loose" one. "What to do about inflation will take on an absolutely key role," says Louis Kuijs, a World Bank economist in Beijing. One thing that probably will not be tackled is a major loosening of the yuan's peg to the dollar.

The decisions made at the conference will fuel the debate on China's ability to manage a soft landing after two years of stimulus. For the optimists, a combination of higher bank reserves, tighter lending quotas, and higher interest rates will contain inflation, which they say is largely confined to food prices. "The economy is running close to potential, and in our forecasts, will remain there for the next two years. In other words, China is not overheating," wrote Capital Economics analysts Mark Williams and Qinwei Wang in a Dec. 2 note.

Those who foresee a soft landing also believe China's economy is moving, albeit slowly, toward becoming more consumption-driven. A Bloomberg survey of economists expects a November gain of almost 19 percent for China's retail sales. "China is still the best consumption story in the world in terms of sales growth of most goods and services," says Andy Rothman, China macro strategist for CLSA Asia-Pacific Markets.

Others are less sanguine. Tsinghua University School of Economics and Management professor Patrick Chovanec says China is still dealing with the inflationary impact of 50-plus percent growth in money supply since the stimulus's launch, and will have trouble tightening up, Party pronouncements notwithstanding.

The abundance of cheap money has already driven up prices in assets such as luxury apartments, jade jewelry, and Chinese art. "Now this inflationary pressure is leaking out into the general economy," says Chovanec. He points out that the likely loan target for next year, although smaller than that of 2010, would still be over one and a half times the amount lent in 2008. "If anyone is printing money, it is China's central bank, not the U.S.," says Stephen Green, head of research for Greater China

China's stimulus beats the U.S.
Annual percentage change in broad money supply (M2)

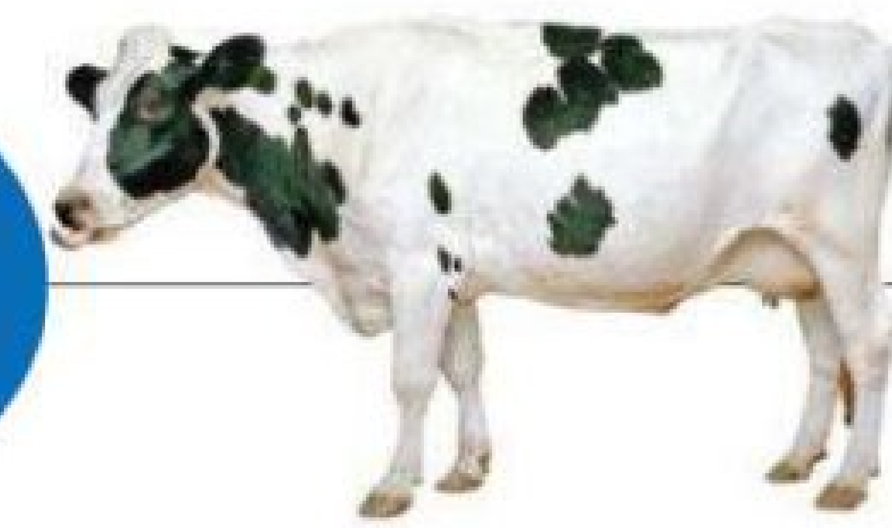


DATA: BLOOMBERG

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Dean Foods' divestment prospects page 23 ▶



at Standard Chartered in Shanghai.

The government may also have trouble weaning itself off public spending. Recent reports by local media say China is mulling a massive new stimulus plan of as much as $1.5 trillion over the next five years in seven strategic industries. Even as the Politburo signaled tighter lending practices on Dec. 3, it stated that China will continue with "proactive fiscal policies."

China "is behind the curve" on reining in the monetary measures adopted during the global financial crisis, says Fred Hu, the former Goldman Sachs chief China economist, who has founded financial advisory firm Primavera Capital Group. "Policymakers have been complacent." *—Dexter Roberts, with Kevin Hamlin and Li Yanping*

The bottom line *The Chinese government's Economic Work Conference in Bejing will set policy on growth, inflation, and bank lending for 2011.*

Currency Crises

The Argentina Veterans Eye the Euro Warily



▶ Those who predicted the 2001 default see parallels in Europe

▶ "There will be a political crisis, as happened in Argentina"

In early 2001, nine months before the government of Argentina stopped servicing its $95 billion in debt, Jonathan Binder of Standard Asset Management sold all his holdings of the nation's bonds, protecting clients from what remains the biggest sovereign default in history. He's betting Greece, Portugal, and Spain will have to restructure their debts and leave the euro.

Binder, now chief investment officer at Consilium Investment Management in Fort Lauderdale, has been buying credit default swaps to protect against default by the three nations as well as Italy and Belgium. "You will probably see at least one restructuring before the end of next year," he says. His Emerging Market Absolute Return Fund is up 17.6 percent so far in 2010, vs. an average return of 10 percent for emerging-market funds, according to BarclayHedge, a tracker of hedge fund performance.

A number of investors and economists who bet right on Argentina are becoming convinced that bondholders in Europe's troubled sovereign debt will have to accept new securities that pay less interest and mature later. Mohamed A. El-Erian, whose emerging-market fund at Pacific Investment Management beat its peers in 2001 by avoiding Argentina, expects some countries to exit the 16-nation euro zone.

Gramercy, a $2.2 billion investment firm in Greenwich, Conn., is buying swaps in Europe to "hedge" holdings of emerging-market bonds, says Chief Investment Officer Robert Koenigsberger; he sees the turmoil in Europe affecting emerging markets. Koenigsberger dumped Argentine notes more than a year before default. "The currency rigidities and fiscal traps that bound Argentina in 2001 and on the periphery of Europe today are quite similar," he says. "A purely economic decision would have Greece already in default, and several other nations close behind."

Before the Argentine crisis erupted, the Argentine peso traded at a fixed rate to the dollar, smothering inflation. Argentina maintained the peg for a decade, encouraging overseas investors to buy its bonds, even though its budget deficit was growing. A severe recession in the late 1990s tested its ability both to keep the peg and pay its debt. The final blow was a move by Brazil, Argentina's top trading partner, to devalue its currency. Argentine exporters, squeezed already by the strong peso, could no longer compete. In late 2001 riots over spending cuts and the seizure of retirement savings toppled the government. Argentina defaulted in December. The peso lost 74 percent of its value in the devaluation that followed.

In a similar pattern, the early success of the euro encouraged investors to lend liberally to governments and banks in the euro zone, even though countries such as Greece had bumpy fiscal histories. The rise in the euro's value

➜

Tom Keene's EconoChat

Tom talks with **Carl Weinberg,** president of analyst group High Frequency Economics, about a "white knight" scenario for Europe.

Carl, you've raised an interesting proposition of China coming to Europe's rescue.

Oh, yes. Any bankruptcy lawyer will tell you that a white knight is always welcome in a bankruptcy proceeding, and that's what we have. My guess is that the euroland banks are looking at potential failures similar to what Ireland saw.

How does China fit in?

The Chinese have a lot to gain by getting more involved in Europe's economy. They have a ton of foreign exchange reserves, more of which can be committed to speculative investment, and they could gain a lot by a controlling interest in the Irish banking sector or by cornering the market in Greek government bonds, which are paying 10.5 percent, and stabilizing it. I think they are interested in that. But this involves Europe giving up control over strategic national assets like banks.

Americans got all worked up when the Japanese bought Rockefeller Center.

And people got all worked up when the U.S. became the creditor to the world in the interwar period and after World War II. Of course, that strategy of having ready cash available at a time when the world was on its back was part of what led to the U.S.'s economic dominance in both postwar periods. China could potentially be on a well-trodden path toward picking up its status in the world simply by having savings when other countries do not.



Keene hosts Bloomberg Surveillance *7-10 a.m., 1130AM in New York, XM 129, Sirius 130.*

CLOCKWISE FROM TOP: CATHERINE LEDNER/GETTY IMAGES; ANDREW HARRER/BLOOMBERG; ILLUSTRATION BY OLIVER MUNDAY

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags



StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Global Economics

against the dollar later hurt manufacturers in Greece and Portugal, while the recession revealed their fiscal weaknesses.

Domingo Cavallo, who resigned as Argentina's Economy Minister in December 2001, says the International Monetary Fund and European Union should buy the debts of Greece and other afflicted countries at today's depressed prices and institute labor and tax reforms. "If they don't do something in a more rapid way, that may destroy all the governments simply because people in these countries will not stand deflation and depression accompanied by fiscal adjustment," says Cavallo, now chief executive officer of DFC Associates, a Buenos Aires consultancy. "There will be a political crisis in an extreme way, as happened in Argentina."

$95 BILLION

The debt that Argentina defaulted on in 2001

The European nations affected by the crisis are in worse shape than Argentina was in 2001. In 2009, Greece's total debt amounted to 127 percent of its gross domestic product, while Argentina's public debt was 62 percent of GDP in 2001, according to IMF data. Greece's budget deficit of 15.4 percent of its economy is the highest among developed nations, followed by 11 percent in Spain and 9.3 percent in Portugal. Argentina's budget deficit was 6.4 percent in 2001.

One veteran of earlier crises predicts an all-out effort to avoid the worst. The EU, IMF, the U.S., and China will do what it takes to avoid a default and breakup of the euro, says former IMF economist Simon Nocera, who manages emerging-market bonds as co-founder of Lumen Advisors. "I don't think the situation will blow up or that someone will leave the euro," says Nocera, who was a manager at George Soros' Quantum Emerging Growth Fund during the Asian crisis and Russia's ruble collapses. "The status quo is of great interest not only to Europe but also to the U.S. and to China. It's an entirely different ball game than a default in Argentina." B

—*Ye Xie*

The bottom line *Argentina's debt default and currency devaluation offer insights to money managers assessing risk in the euro zone.*

Seven Days

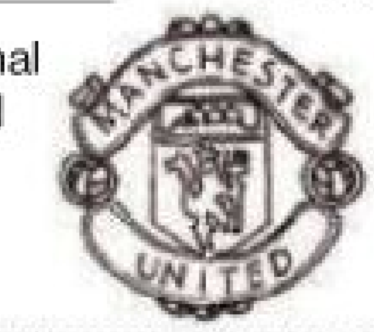
Events of note in the week ahead

by Ira Boudway

13

Japan's industrial production for October

English football: Arsenal vs. Manchester United



▶ **Walker & Dunlop IPO:** The Maryland-based commercial real estate lender aims to raise $160 million from the sale of 10 million shares on the NYSE. The sale could be moved to later in the week.

14

Federal Open Market Committee meeting

WTO General Council meeting



▶ ***Sì o no:*** Italian Prime Minister Silvio Berlusconi faces confidence votes in both houses of Parliament and a ruling from the Constitutional Court on his temporary immunity from prosecution.

15

U.S. consumer price index for November

Euro zone third-quarter unemployment rate

▶ **Sotheby's 20th Century British Art auction:** Sir Stanley Spencer's *Hilda and I at Pond Street* is expected to fetch as much as $945,000. That could prove a highlight of the 178-lot sale in London.



16

U.S. housing starts for November

Earnings reports from FedEx, Oracle, and Pier 1



▶ **European Council summit:** Heads of state from EU member nations meet in Brussels as the debt crisis looms.

▶ **General Mills earnings:** Profits at the cereal maker have been squeezed by rising commodity prices.

17

U.S. leading economic index

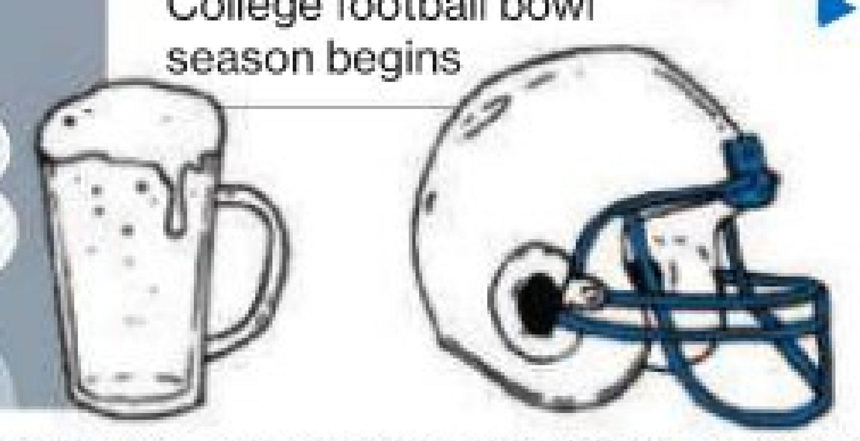
NBA: Miami Heat vs. New York Knicks

▶ **Brazil's unemployment rate:** Joblessness has been on a steady decline in Brazil for the past six months.



18

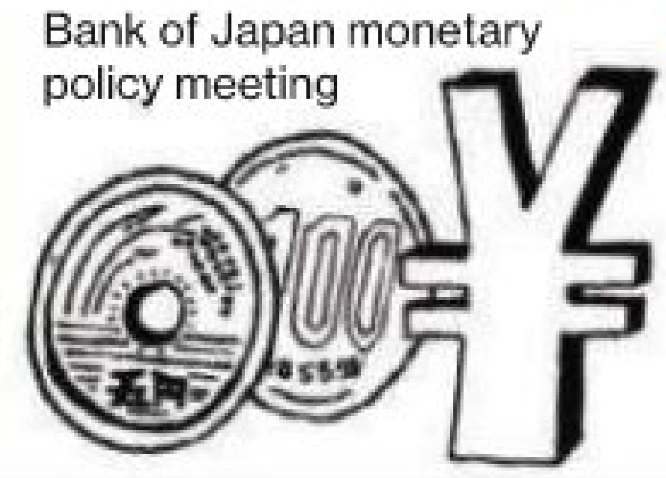
College football bowl season begins



▶ **Super Saturday:** Historically the second-biggest shopping day in the year. Sales were down 12.6 percent last year when storms battered the Midwest.

19

Bank of Japan monetary policy meeting



▶ **Belarus elections:** President Alexander Lukashenko is expected to declare victory for a fourth consecutive term.

For more events, visit Businessweek.com.

ILLUSTRATIONS BY MAAYAN PEARL

Sponsored Online By:
xerox ®
Ready For Real Business

StoreMags - Free Magazines Download In True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags

We focus on digitizing P&G's documents worldwide. So they don't have to.

Xerox provides print services that enable P&G to digitize more documents, print 8 million fewer pages, and lower printing-related energy usage by 30%. Which allows P&G to focus on improving people's lives with the brands they love.

RealBusiness.com

Ready For Real Business xerox



©2010 XEROX CORPORATION. All rights reserved. XEROX,® XEROX and Design,® and Ready For Real Business are trademarks of Xerox Corporation in the United States and/or other countries. All other logos, trademarks, registered trademarks or service marks used herein are the property of their respective holders.

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

StoreMags - Free Magazines Download in True PDF format



Release: StoreMags & Fantamag. Magazines for All

StoreMags

Companies&Industries

The Queen of Talk Bets on Becoming Cable's Last Word

▶ **Despite the hype, Oprah Winfrey's new cable network has risks aplenty**

▶ **"Martha [Stewart] is a personality. Oprah is a way of life"**



Winfrey wants her millions of viewers to follow her to cable

OPRAH: FREDERICK M. BROWN/GETTY IMAGES

Slapping Oprah Winfrey's name on something usually makes that thing a success. As it prepares to flip the switch on the Oprah Winfrey Network cable channel on Jan. 1, **Discovery Communications** is betting that streak will hold. "This channel will have her name on it," says Christina Norman, the former **MTV** president who is now OWN's chief executive officer. She says the channel could be profitable within three years. "It's something that [Oprah] doesn't want to be anything but great."

Still, the network, which Oprah's holding company **Harpo** will own jointly with Discovery, is not a sure bet. Some cable and satellite operators are resisting Discovery's demands for fees triple what they are paying for Discovery Health, the channel being converted to OWN. Advertisers coaxed aboard with a personal call from Oprah will want to see healthy ratings. "No one has ever created a whole channel with original programming [like this] from scratch," says Ron Schneier, chief operating officer of online advertising service MyVideoRights and a former executive at A&E Channel. "It has its share of risks."

Viewers won't see Oprah 24/7. The 56-year-old host to 7.2 million TV viewers can't have a daily talk show on the cable channel until September, after her syndicated program ends its 25-year run. For now, she's committed to appear on OWN only 70 hours a year, and will be seen on specials and a reality show chronicling her program's final season.

Instead, Oprah has become her network's programmer-in-chief. To close a deal for a talk show by Rosie O'Donnell, Winfrey hopped on a jet with Norman and former Viacom CEO Tom Freston, her consultant on the channel, for a sit-down at the comedian's New York-area home. She convinced Duchess of York Sarah Ferguson to do a six-part series of documentaries by e-mail. "You don't say no very easily to Oprah," says Freston.

Discovery, which has agreed to loan OWN $189 million, is pressing cable and satellite TV systems to pay three times the 7¢ per subscriber it was getting monthly for Discovery Health. **DirecTV** has so far refused, waiting for its existing deal with Discovery to expire in more than two years, says a person with knowledge of the talks. Norman says some operators are indeed waiting out their existing Health channel contracts, but may end up paying more if they wait: "I say, sign on now," she says. "I'm betting on OWN."

Former BBC Worldwide America President Garth Ancier, a former programming chief at NBC and Fox, says: "It's always tough to translate a single show to a channel. The key will be in finding talent and ideas that complement Oprah's tone." Ancier is confident Oprah will. So are advertisers, who are counting on the channel's "Live Your Best Life" slogan and its inspirational programming to win viewers, says Catherine Warburton, executive vice-president at the Universal McCann ad agency.

OWN will generate $101.7 million in ad revenues its first year, up from ➔

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Companies&Industries

the $18 million that Discovery Health collected last year, estimates Derek Baine, an analyst with cable research firm SNL Kagan. He forecasts that Oprah and Discovery will spend more than $162.3 million next year on programming, a fivefold increase from Discovery Health's spending. At the outset, the channel will air a mix of new shows and reruns of *The Best of Dr. Phil*, advice programs from the likes of Dr. Mehmet Oz and Suze Orman, movies, and *Mystery Diagnosis*, a Discovery Health leftover.

Oprah's channel has already produced plenty of drama. OWN's president and two programming executives have departed, and the network is starting a year behind schedule. In August, Discovery nearly doubled its original $100 million investment–and persuaded Winfrey to double the 35 hours she had committed to being on-air. "We were just starting and really didn't know all the things we wanted to do," says Peter Liguori, Discovery's chief operating officer. Winfrey and executives at Harpo declined comment for this story.

Discovery has high hopes. "We think OWN has a very substantial opportunity," CEO David Zaslav told analysts on Dec. 7. The channel has been telling advertisers to expect an audience size similar to Discovery's TLC, ranked sixth among women aged 25 to 54–the same demographic OWN targets. OWN also is asking for the same lofty ad rates, says Brad Adgate, director of research at Horizon Media. **General Motors, Procter & Gamble**, and retailer **Kohl's** have signed on.

Still, star power doesn't guarantee success: Martha Stewart had a weak showing on **Crown Media Holdings**' Hallmark Channel this year, and her daily block of programming was pared to five hours from eight. OWN also faces competition from **A&E Television Networks**' Lifetime and **NBC Universal**'s Bravo, two of the top cable outlets among Oprah's demographic. Says Bill Abbott, president and CEO of Hallmark Channels, "It will take time for the audience to find her." OWN's backers are counting on the power of the Oprah brand. Says Discovery's Liguori: "Martha is a personality. Oprah is a way of life."
—*Ronald Grover and Andy Fixmer*

The bottom line *With the launch of the Oprah Winfrey Network on Jan. 1, the TV host is betting big she can persuade millions of fans to follow her to cable.*



An expansion of the Panama Canal will allow it to handle larger ships

FROM TOP: AMBROISE TEZENAS/PANOS; GETTY IMAGES

Shipping

A Trade Rebound Launches Bigger Boats

▶ As Asian trade swells, demand for large container ships booms

▶ "The trend is big ships. It's not a choice, but a must"

Megavessels–ships longer than the 1,063-foot-high Eiffel Tower–are in demand again. These days, Choe Yong Seok of **Daewoo Shipbuilding & Marine Engineering** in Seoul has been getting calls and e-mails from clients asking whether the company can build ships that can carry 20,000 20-foot containers, more than double the capacity of today's most common vessels. "We were totally caught off guard because we thought the interest would be for smaller ones," says Choe, the company's business vice-president for marketing. "There had been so many orders for large ships a few years back" that it led to excess capacity, he says.

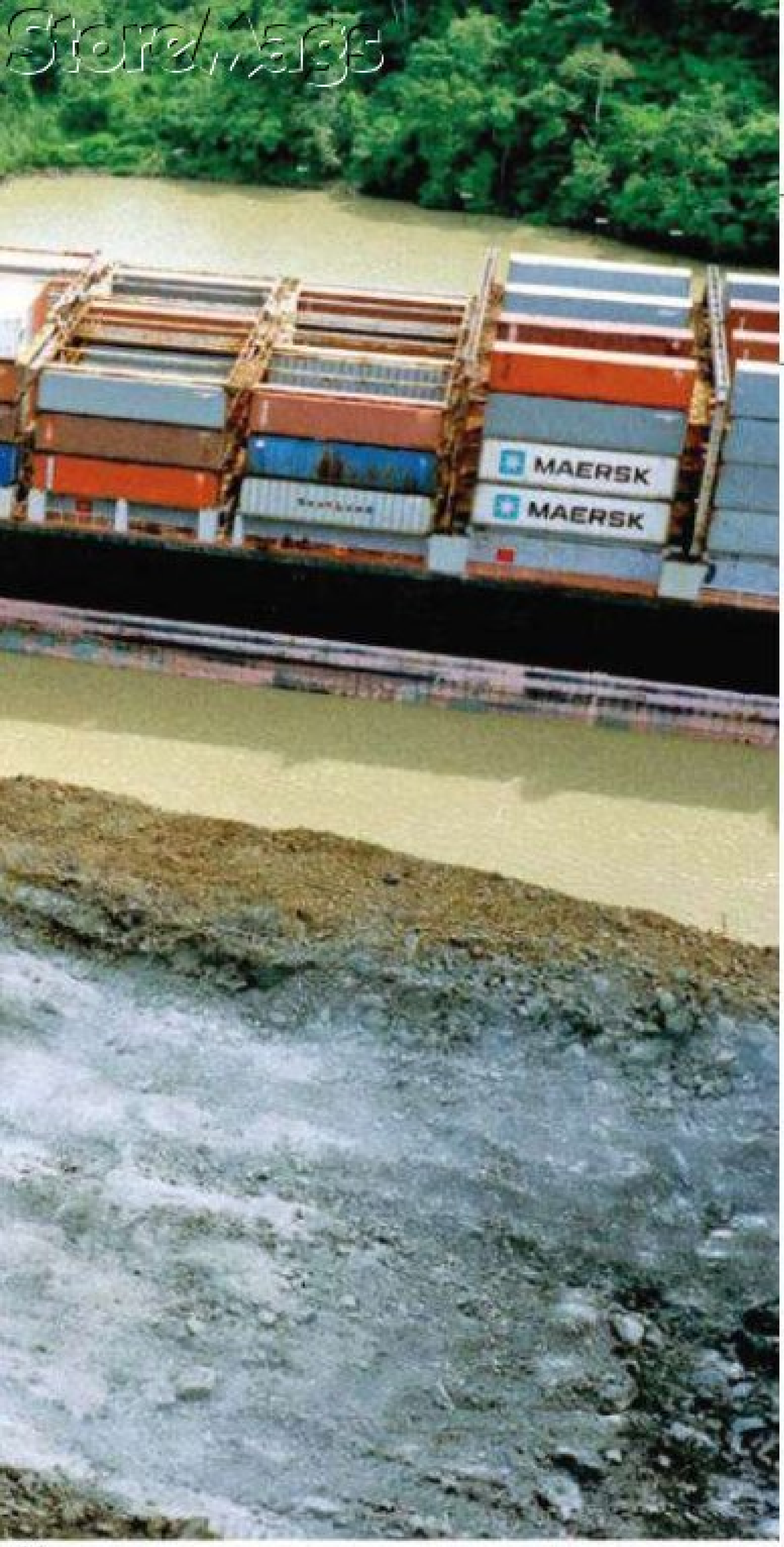
No more. Shipping lines are preparing for the completion of the $5.25 billion expansion of the Panama Canal and the recovery of global trade. In the 10 months through October, orders valued at $6.3 billion were placed for ships that can carry a total of 516,600 containers. That's more than a sixfold jump from a year earlier, says London-based **Clarkson**, the world's largest ship broker. Most orders were for big, big ships: Vessels that can each move more than 8,000 containers made up a record 80 percent of the volume, surpassing 2007's previous peak of 66 percent. That was the year that work on the canal's expansion began.

It typically takes more than three years to fill an order for a new vessel, so shippers are rushing to prepare for the unveiling of the gussied-up canal when it is completed in 2014. Currently, only ships loading fewer than 5,000 containers can use the 50-mile waterway connecting the Pacific Ocean and the Caribbean Sea. Once new locks are constructed and the canal is deepened, it will accommodate vessels carrying about 12,600 containers. The canal is expected to see an increase in cargo of about 5 percent a year, according to Rodolfo Sabonge, director of marketing for the Panama Canal Authority.

The revival of international trade is the main driver behind big-ship

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags



demand. Global trade may expand 11.4 percent this year and 7 percent in 2011, recovering from an 11 percent drop last year, says the International Monetary Fund. A push by the International Maritime Organization, a U.N. unit charged with controlling ship pollution and safety, to toughen rules on ship efficiency and emissions is also spurring demand for newer, larger ships, says Lee Jae Won, an analyst at Tong Yang Securities in Seoul. There are 61 ships in operation worldwide that can each carry more than 10,000 boxes, and an additional 144 on order that will gradually begin service after 2014, according to Um Kyong A, an analyst at Shinyoung Securities in Seoul. All except 12 come from a South Korean shipyard, she says.

Since July, Taiwan-based **Evergreen Group** has ordered 20 ships valued at a total of about $2 billion from **Samsung Heavy Industries**, the world's third-largest builder. **Neptune Orient Lines**, Asia's second-largest container shipping company after Evergreen, signed a $1.2 billion contract for 12 ships from Daewoo Shipbuilding last summer. Lee says orders for container ships may more than double, to $19 billion, in 2011. And growth for ships that carry more than 8,000 containers is expected to hit 25 percent by the start of 2012, seven times the increase for smaller ships, says Clarkson.

Manufacturers who ship from several continents–think consumer electronics or appliances–like using the big ships because they hold more and can lower the cost of transporting cargo. One 20-foot container box can move 1,000 or so 42-inch liquid-crystal display TVs. The four largest ships currently in service, built by Daewoo Shipbuilding, can carry 14,000 such containers; nine more are under construction. "LG is currently studying the advantages of larger capacity ships ... and so far the data looks promising," says Choi Young Seon, head of the logistics transformation division at **LG Electronics**. "Although sea transport is already the most energy-efficient mode of transportation, we are constantly studying enhancements and efficiencies that reduce fuel consumption [and] save money."

South Korean shipbuilders are likely to be the biggest beneficiaries of the big-ship craze because they have the expertise that comes from producing 90 percent of the vessels that can each carry more than 10,000 containers, says Lee Sokje, an analyst at Mirae Asset Securities in Seoul. "The trend is big ships. It's not a choice but a must," Lee says. "It's going to be a fight of who can carry more at lower costs, and South Korean shipyards will have the advantage." —*Kyunghee Park*

The bottom line *As trade increases along with the strengthening global economy, demand for very large container ships is booming.*

Food

Has Dean Foods Gotten Too Big to Succeed?

▶ After a decade of deals, a dairy giant faces diminishing prospects

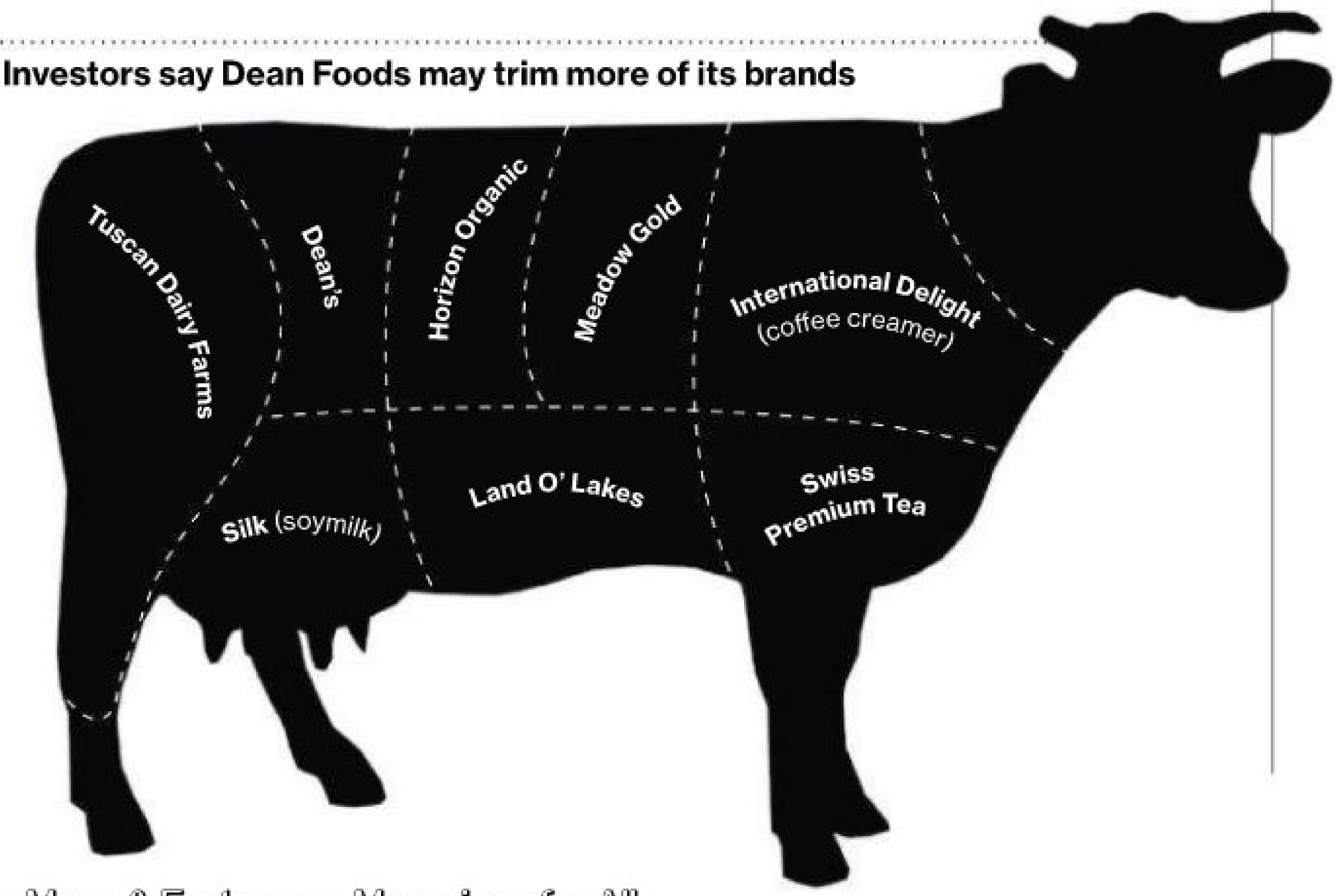
▶ "We are passing on Dean because we think it's structurally impaired"

Through more than 40 acquisitions, **Dean Foods** Chief Executive Officer Gregg L. Engles built the nation's largest dairy processor. Now he may have to start dismantling his creation.

Dean's stock is off about 60 percent this year, making it the worst performer in the Standard & Poor's 500-stock index. The Dallas-based company's earnings are getting squeezed by big-box stores and supermarket chains looking for price concessions. At the same time, Dean is having to contend with big jumps in prices of key commodities such as raw milk, butterfat, soybeans, and sugar.

Combined, these trends are crimping the company's cash flow and may make it difficult for Dean, which is carrying around $4 billion in debt, to stick to the terms of its loan agreements, says Vicki Bryan, an analyst with Gimme Credit in New York. Dean's ratio of long-term debt to equity stands at 260 percent, the highest of any food or beverage company in the S&P 500. "I expect them to opportunistically divest assets," says Bryan. "It's going to be tough under market conditions to get an

Investors say Dean Foods may trim more of its brands



StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Companies&Industries

optimal price." Company spokeswoman Liliana Esposito declined to comment.

Dean's net income has declined year-on-year in each of the last four quarters. Earnings have come in short of analysts' estimates twice in 2010. And the company has said that conditions won't improve in the first half of 2011.

A graduate of Yale Law School, Engles, 53, is described on Dean's website as "the primary architect" of the consolidation of the U.S. dairy industry. It all started with a dairy in San Juan, Puerto Rico, which Engles and a group of investors purchased in 1993 and took public three years later. In 2001, Engles acquired Dean, a company in Franklin Park, Ill., with roots in the evaporated-milk business. More recent purchases include WhiteWave, a maker of Silk soymilk, in 2002; organic milk maker Horizon Organic in 2004; and, in 2009, Alpro, which produces soy-based products in Europe. Dean's annual sales have soared, climbing from $150 million in 1994 to $11 billion last year, according to a Securities and Exchange Commission filing.

Credit Suisse analyst Robert Moskow says Dean's strategy of driving down costs to undercut smaller, less efficient milk processors and force them to scale back capacity has not yielded results. At the same time, Dean is facing pressure from retailers who are discounting milk to attract penny-pinching consumers while demanding price breaks from suppliers. Also, more shoppers are buying cheaper private-label milk products instead of Dean's brands. "Our industry is going through a wrenching ordeal," said Engles in a conference call on Nov. 9, after the company reported a 51 percent drop in third-quarter net income.

To cut costs, Engles has closed five plants since 2009. Still, Michael Benoit, an analyst at Chicago's Talon Asset Management, believes Dean is in a "downward spiral" and may not be able to trim expenses fast enough to counter a steep rise in commodity prices. Says Benoit: "We are passing on Dean because we think it's structurally impaired."

Engles has begun selling off some of the pieces of his empire. Dean booked a $6.4 million after-tax gain from the sale of Rachel's Dairy, an organic yogurt

Entertainment

Tron: A 2010 Marketing Odyssey

Disney spent $170 million making *Tron: Legacy*, the sequel to its 1982 sci-fi flick, *Tron*. If the film disappoints at its Dec. 17 opening, it won't be for lack of promotion. Its name has been slapped on everything from cans of Coke Zero to $795 heels. —*Michael White*



OPPOSITE PAGE: EDUARDO VERDUGO/AP PHOTO

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags

maker based in the U.K., to France's **Groupe Lactalis** in August. Last month **General Mills** agreed to buy Dean's Mountain High yogurt business for an undisclosed price.

One business that would likely draw bids is WhiteWave-Alpro: Earnings at the unit, which produces soy-based drinks, continue to rise. In a Nov. 10 report, Sanford C. Bernstein noted that a sale of WhiteWave-Alpro could cut Dean's debt nearly in half. In the November call with analysts, Engles said that the unit "is managed quite separately" and would therefore be easy to hive off.

Some of Dean's shareholders might be relieved to see a buyer step forward amid concerns that the company's fortunes may not turn around. The stock surged more than 8 percent on Aug. 31 after the website Briefing.com reported "chatter" about a bid from France's **Groupe Danone**. Danone CEO Franck Riboud has since told the press he's not interested in getting into the milk business. Alan Thompson, a derivatives trader for the Timber Hill division of Interactive Brokers, which owns Dean shares, says: "Until some European player or other conglomerate swoops in, the fundamental picture remains bleak."
–Shruti Date Singh and Matthew Boyle

The bottom line *Faced with an earnings squeeze, Dean Foods CEO Gregg Engles may need to sell off assets to pay down debt.*

Climate Change

As Temperatures Rise, Business Adapts

▶ With no deal on carbon, companies hope to profit from global warming

▶ "All businesses will have to climate-proof their operations"



Demonstrators in Cancún: Delegates are unlikely to reach a binding deal

As politicians struggle to reduce the risk of global warming, corporations are preparing for changes to the climate. Some companies are devising products to help the world adapt to higher temperatures and sea levels, a potential $135 billion-a-year market by 2030, while others aim to minimize the impact of warming on their operations. "Climate change presents a direct threat to our business," says Jim Hanna, director of environmental impact for **Starbucks**. To ensure continued availability of coffee beans, his company has started rewarding farmers who take steps to prevent soil erosion. "Adaptation is becoming part of our strategy."

The companies are driven in part by the failure of international efforts to cut the greenhouse gases that scientists say contribute to global warming. Discussions last year in Copenhagen yielded little progress, and officials from more than 190 countries, meeting in Cancún, Mexico, until Dec. 10, say they don't expect a binding agreement on measures to slow the growth of emissions. "Adaptation needs more attention," says Andrew Steer, the World Bank's climate-change chief. "I'm not saying adaptation is better than mitigation. It's not. But unfortunately, it's unlikely we will be able to prevent temperatures from rising."

Damages from climate-related disasters are mounting. Insured losses from storms and floods have risen more than fivefold, to $27 billion annually, in the past four decades, **Swiss Re** says. By 2030, the world may spend $135 billion a year on flood protection, buildings that can withstand hurricanes, and drought-resistant crops, Swiss Re says, citing UN data. "Sooner or later all businesses will have to climate-proof their operations," Christiana Figueres, the UN's climate chief, said in a September speech in New York.

Levi Strauss says it's worried higher temperatures and sea levels will cause cotton prices to rise. The apparel-maker is mapping out its operations and supply chain to see where water scarcity may cause damage.

General Electric is working with **Goldman Sachs** to map water-related risks for investors. GE also views the database as a tool to identify areas where a shifting climate means water scarcity, says Jeff Fulgham, sustainability chief for GE Water. "We want to make sure we are on the ground in those high-stress areas," Fulgham says. He expects revenue from GE's business of recycling water for use in power plants, agriculture, and manufacturing to grow more than 10 percent a year through at least 2016.

Dupont expects increased demand for drought-resistant crops to expand its $8.2 billion agriculture business. "Opportunity comes from using science to help improve productivity for farmers, and they will have to do that to deal with climate change," says James C. Borel, Dupont's vice-president in charge of seed operations.

Zurich Financial Services is offering policies that let businesses and homeowners replace storm-damaged property with structures better able to withstand extreme weather. "When governments are not acting," says Lindene Patton, Zurich's chief climate-products officer, "people fill gaps with whatever tools are available."
—Jim Efstathiou Jr. and Kim Chipman

The bottom line *Scant progress on an agreement to cut greenhouse gases means companies are taking steps to profit from global warming.*

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags

Enterprise

Borrowing from Avon And Dell to Sell Shirts

▶ J. Hilburn aims to remake the supply chain for apparel

▶ "No one's really thought about how to engage male shoppers"

You can't buy Dallas clothier **J. Hilburn**'s shirts in a retail store or online. Nonetheless, the company expects to sell 60,000 of them this year by dispatching salespeople to customers' homes or offices to take measurements and suggest fabrics and styles. They send their orders to a factory near Macau, China, where shirts are cut and sewn from Italian fabric. Buyers receive them in two to three weeks and pay between $80 and $150, less than half the price of similar shirts sold in some high-end stores.

The company is the brainchild of a couple of former finance types who set out to serve men who see shopping as a chore. "No one's really thought about how to engage male shoppers," says Veeral Rathod, 31, one of the founders. Rathod and co-founder Hil Davis (the company took its moniker from his full name, J. Hilburn Davis IV) have borrowed from the direct-sales model of **Avon Products**, the supply chain management of **Toyota Motor**, customization techniques pioneered by **Dell**, and **Amazon.com**'s ease of shopping.

Some 30,000 people have bought clothing or accessories from Hilburn, the company says. And 93 percent of its customers return for a second purchase, says Davis. Since Hilburn was founded in 2007, its sales have tripled each year and are on track to top $9 million in 2010, driven by growing demand for its shirts as well as newer products such as trousers, cuff links, and cashmere sweaters. "Customers are basically saying, 'You've become my solution, now offer me more products,'" says Davis, 38.

Jim Pitkow started buying from Hilburn 10 months ago for the convenience and price. Pitkow, chief executive officer of a San Mateo (Calif.) software startup called **Attributor**, used to visit tailors during trips to London or send his measurements to shirtmakers, which sometimes resulted in a poor fit. Until he started buying from Hilburn, "nobody came to measure or fit me properly," he says. The shirts cost about half what he used to pay.

While new customers can find sales reps through Hilburn's website, most come through referrals. The company has 650 "style advisers" who earn commissions of up to 25 percent on clothing they sell after paying $399 for fabric samples, sales materials, and training. Most are women with school-age children looking for extra income, Davis says. As in other direct-sales companies, they get a cut of sales made by reps they recruit.

ANDREW HARRER/BLOOMBERG



StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Does the Post Office need a bailout? page 33▶



Each Hilburn rep, though, can sign up only five others directly, which Davis says creates an incentive to find the best salespeople rather than simply recruiting as many as possible.

Amy Mancini started selling Hilburn shirts in 2008. A mother of three in West Boylston, Mass., the former nurse says she earns about $60,000 annually, spending between 20 and 25 hours a week managing other reps and visiting customers. "I have clients anywhere from college students all the way up to presidents and CEOs," she says. The sales calls are crucial to getting measurements right and making customers feel comfortable about buying a garment they can't try on. Clients' measurements are stored in a database, and the company plans to launch an online store next year where customers can order new shirts once they've been fitted.

Hilburn's "style advisers" earn up to 25 percent in commissions after paying $399 for fabric samples

The model removes some traditional up-front costs of retailing. "You've got a sales force you're not paying until they sell things. You're not paying to make the shirt until the shirt is sold," says Brian O'Malley, a Hilburn board member and partner at **Battery Ventures**. The Menlo Park (Calif.) venture capital firm has invested $7.25 million in the company. Hilburn is replicating custom tailoring on a mass scale, says Milton F. Pedraza, CEO of the Luxury Institute, a consultant to high-end brands. "They're trying to scale a model that already works," he says. The prices also give Hilburn an advantage: Pedraza says he pays more than $300 for similar shirts.

Making custom shirts, though, brings its own inefficiencies. The fabric for each must be cut individually, not in bulk from one template, the way off-the-rack shirts are made. The company's contract manufacturer in China eventually created a new pattern-making department where the shirt shapes are sized on computers and cut automatically. Still, each seamstress can make only about six shirts a day.

Hilburn recently hired Lawrence Hagenbuch, a veteran of **General Electric**, as chief operating officer to help streamline manufacturing and distribution. Davis and Rathod want to halve the time it takes to get clothing to customers. Among other steps, Davis wants to box individual orders leaving the factory in China so they can be shipped directly to customers instead of having to break up shipments once they reach the U.S. "The apparel supply chain hasn't evolved since the 1920s," says Davis. "That's our opportunity." *—John Tozzi*

The bottom line *J. Hilburn is trying to create a new retail model for men's fashion by combining customization with direct sales.*

Booming is
never looking for a check in the mail.
Because it's already in your email.

Divya Gugnani owns the culinary web company Behind the Burner; and for her, Booming is getting paid faster. After using social media to reach 140,000 subscribers in just two years, Divya needed her cash to flow as rapidly as her company was growing. So she started invoicing with AcceptPay,® a new online payment solution from American Express OPEN. Now her advertisers have more ways to pay, and she's getting paid around three weeks faster. Get your business Booming at open.com.

DIVYA GUGNANI
BEHIND THE BURNER
BEHINDTHEBURNER.COM
MEMBER SINCE 95

©2010 American Express Company. All rights reserved. AcceptPay from American Express is powered by PaySimple. Terms, conditions and restrictions apply. Visit OPEN.com/acceptpay for details.

Start Booming.
AMERICAN EXPRESS OPEN
open.com

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags

Pharmaceuticals

At Pfizer, a Messy Passing of the Mantle

▶ The big drugmaker's CEO bolts before being grilled

▶ "Investors have not been happy about the stock price"

Orchestrating a smooth transition between top managers is Job One for corporate directors, and the larger the company, the more scripted the process. Not so at **Pfizer**, the world's largest drugmaker, where Chief Executive Officer Jeffrey B. Kindler resigned on Dec. 5 only hours before a special board meeting to discuss his future, according to a person familiar with the situation. Directors were upset over Kindler's failure to name an operations chief, said this person.

Ian Read, who ran the drug operations that account for 85 percent of Pfizer revenue, was named to replace Kindler. Senior executives in September had agreed that Read should be named chief operating officer and considered as a candidate to succeed Kindler, said a person who asked not to be named because deliberations were private. Kindler never made the appointment.

Some executives had become frustrated with Kindler's management style in recent months, the person said. While Pfizer faces big challenges on health reform and the expiration of key patents, Kindler focused on smaller matters and micromanaged executives, the person said. Pfizer shares fell 35 percent since Kindler, formerly general counsel, became CEO in July 2006. "Investors have not been happy about the stock price," says Les Funtleyder, a portfolio manager at Miller Tabak. Kindler, whose retirement was effective immediately, didn't return calls to his home. Pfizer spokesman Ray Kerins declined to comment on the board's deliberations.

Read has his work cut out for him. Over the next five years, Pfizer faces competition from generics on products, including Lipitor, that account for a third of its sales. B —*Tom Randall*

The bottom line *Pfizer CEO Jeffrey Kindler resigned abruptly as directors prepared to consider his future. His successor will get no honeymoon.*

Briefs

by Caroline Winter

Wal-Mart Stores
The High Court ponders class actions



The U.S. Supreme Court, heeding calls from companies to consider curbing class actions, agreed to rule on whether Wal-Mart Stores must face a gender-bias suit brought on behalf of about 1 million of its workers. The suit, the largest ever of its kind, alleges that the retailer paid women less than men for the same jobs and gave female workers fewer promotions. The High Court's ruling on the case could affect several pending suits involving Costco, Altria, and other major employers. Separately, Wal-Mart, the largest private employer in the U.S., announced that it will cease paying staff an additional $1 an hour to work Sundays, taking a bite out of its expenses.

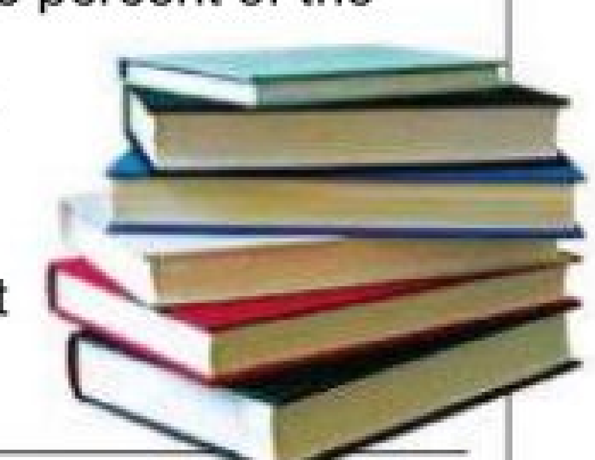
Coty
A cosmetics empire on the rise



Coty, the seller of perfumes by Sarah Jessica Parker and Vera Wang, has announced its fourth acquisition in as many weeks. The New York-based company will pay $400 million for a majority stake in TJoy. The Chinese skin-care company has more than 500 distributors that will serve as a sales platform for Coty on the mainland. Privately held Coty, which said sales rose 3 percent in 2010, to $3.6 billion, recently agreed to purchase nail-care company OPI and is buying beauty company Philosophy and the German cosmetics firm Dr. Scheller.

Borders, Barnes & Noble
May join forces

William Ackman's Pershing Square Capital Management, a New York hedge fund with a 15 percent stake in Borders, has offered to work with the bookseller on a $960 million takeover of rival Barnes & Noble. The acquisition would fuse America's two biggest bookstore chains, as sales of paper books slump further and digital books become increasingly popular. While Barnes & Noble now commands about 20 percent of the market for e-books, its brick-and-mortar stores are money losers. Borders, meanwhile, hasn't reported an annual profit in four years.



Apax Partners
Leveraged buyouts are back

$8.5 BILLION

Private equity firm Apax Partners is in exclusive discussions with Goldman Sachs and EQT Partners to buy ISS Holding, a Danish company that is the world's No. 1 provider of cleaning services, for about $8.5 billion, according to people with knowledge of the talks. The purchase would be this year's biggest leveraged buyout, surpassing a recent $5.1 billion takeover of Del Monte Foods. So far, leveraged buyout firms have led $227 billion in takeovers in 2010, more than double the amount in the same period last year.

Delta Air Lines
Another anti-union vote

For the eighth time since Delta's 2008 acquisition of Northwest, a group of workers at the Atlanta-based carrier rejected unionization. The 70 percent vote against joining the International Association of Machinists reaffirms Delta's standing as the least unionized among major U.S. carriers. The IAM said it plans to file an interference claim over "intimidation" tactics by Delta. The Delta vote is among the first under a new National Mediation Board rule that makes it easier for employees to organize by letting the majority of cast ballots determine the outcome. Previously, an abstention was counted as a "no" vote, setting a higher threshold for unions to win approval.

On the Move

Kellogg COO John A. Bryant to become CEO • **Duke Energy** Top utility executive James L. Turner steps down amid an ethics investigation • **IAC** Match.com CEO Gregory R. Blatt named CEO

GETTY IMAGES (2)

StoreMags - Free Magazines Download In True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags



I HAD A PRODUCT CLIENTS HAD TO SEE TO BELIEVE.

THANKS TO FACE-TO-FACE MEETINGS, THEY DID.

-Morgen Newman, IdeaPaint co-founder





Morgen Newman and his college friends had a great idea: dry erase paint. They just needed to get the right partners to sell it. Now, thanks to British Airways, IdeaPaint has distributors from India to Australia, and business couldn't be better.

Last year at British Airways, we put hundreds of small business owners in front of the people they needed to see – for free. This year we're doing it again.

To find out more visit ba.com/facetoface.

BRITISH AIRWAYS

oneworld

©2010 British Airways Plc.

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags



StoreMags - Free Magazines Download in True PDF format

Mobile broadband and other services not available in all areas. See coverage map at stores for details. Activation of AT&T wireless service and World Connect required. Rate applies to wireless calls placed to a China landline. ©2010 AT&T Intellectual Property. Service provided by AT&T Mobility. All rights reserved. AT&T and the AT&T logo are trademarks of AT&T Intellectual Property. All other marks contained herein are the property of their respective owners.

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Contents ▶ Will the U.S. Postal Service need a bailout? 33 ▶ How the U.S. mail stacks up globally 33 ▶ San Diego's mayor asks voters to end guaranteed public pensions 34 ▶ Elizabeth Warren deputizes state attorneys general 35 ▶ Facebook is looking for a few friends in Washington 36 ● Edited by Paula Dwyer

Nov. 11
President Barack Obama fails to reach agreement on a South Korea free-trade deal at the Group of 20 meeting in Seoul.



Ford CEO Alan Mulally

Nov. 29
South Korea's negotiating team arrives at the Sheraton hotel in Columbia, Md.

A Trade Deal's Long And Winding Road

▶ **Obama teams up with Ford's Mulally, unions, and lawmakers to nail a South Korean trade deal**

▶ **"The Administration has done its part," says U.S. Chamber of Commerce's Thomas Donohue**

It wasn't exactly Bretton Woods, the bucolic New Hampshire location where nations met in 1944 to establish a new financial world order. This time the scene was a Sheraton hotel in Columbia, Md., and a manmade lake. Such was the backdrop for the U.S.-South Korea trade deal, whose final details came together on Dec. 2 after the top two negotiators took an hour-long stroll in frigid temperatures alongside the nearby lake.

The day before, President Barack Obama, on the eve of a secret trip to visit the troops in Afghanistan, was in frequent touch with negotiators, say White House aides who spoke on background so they could talk candidly about negotiations with foreign leaders. Obama had been hearing all year that a testy relationship with business was preventing him from realizing his goal of doubling American exports in five years to create jobs and spur economic growth. A reworked free-trade agreement with Korea, initially negotiated by President George W. Bush, could be the first step toward healing that rift.

Ford Chief Executive Officer Alan R. Mulally, representing the U.S. auto industry and the auto company with the most at stake, was consulted nearly every step of the way, Administration officials say. As the talks hit a roadblock, he was asked to attend a Dec. 1 meeting in Treasury Secretary Timothy R. Geithner's office. The White House wanted his support, along with that of

➔

Dec. 1
Mid-afternoon
Treasury Secretary Timothy Geithner and White House economic adviser Lawrence Summers ask Ford CEO Alan Mulally to consider a four-year phaseout of U.S. tariffs on Korean auto exports to the U.S. Mulally wants a five-year transition.



Dec. 1
6 p.m.
Maryland talks are at an impasse. Obama summons his negotiators to Washington.



ALAMY(3); BLOOMBERG(6)

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

Politics&Policy



U.S. pork exports to Korea will be subject to tariffs until 2016

Dec. 3
U.S. Trade Representative Ron Kirk and Kim shake hands to seal the deal.

Bob King, the United Automobile Workers president, and the top Democrat and Republican on the House Ways and Means Committee, Sander M. Levin and David Camp, both from Michigan.

The backing of executives, union leaders, and lawmakers raises the odds of winning passage of the deal in Congress next year. And Obama wants the Korea pact to serve as a new model for trade talks, says Michael Froman, the Deputy National Security Adviser and one of the lead Columbia negotiators. Obama sought "to forge a new coalition of support for trade and then sold it personally" to South Korean President Lee Myung Bak, says Froman. "The Korea deal is important," U.S. Trade Representative Ron Kirk says, "but the importance of concluding it goes beyond Korea."

The Administration is now working on reducing nontariff trade barriers, such as arbitrary license plate size requirements, with other trade partners. It's also discussing reducing similar nontariff barriers, such as onerous safety standards, with Mexico and the European Union. Trade talks with Panama and Colombia are pending, and there may be new ones with Vietnam and Malaysia. Obama hopes a widely supported trade deal with South Korea will soften opposition to future deals, the officials say.

The pact, which the White House says will increase U.S. exports to Korea, now $68 billion a year, by some $11 billion, almost died when Obama and Lee failed to agree at the November Group of 20 summit in Seoul, mostly over differences on auto tariffs. "It was a courageous move in Seoul to walk away," says Ziad Ojakli, a Ford lobbyist. "A bad Korea auto template would have been there for the Indians, the Chinese, and others."

South Korean and American negotiators, sequestered for two days at the Sheraton Columbia Town Center Hotel in suburban Maryland, about an hour's drive from the White House, were again at an impasse on Dec. 1. The hang-up: how quickly to phase out a 2.5 percent tariff on imported Korean autos. The tariffs make Korean cars more expensive in the U.S., giving Ford a leg up with price-conscious consumers. The U.S. tariffs, however, are far lower than the 8 percent levy Korea imposes on American cars. Ford initially wanted the tariffs for 10 more years and had already come down to seven years. Seoul wanted three or four.

Mulally joined Geithner and National Economic Council Director Lawrence Summers at Treasury. Froman, on a speakerphone from Columbia, reported that the talks were foundering. The officials asked Mulally if he could abide a five-year tariff phaseout. He said he'd have to discuss it with the UAW and Michigan lawmakers. That evening, Obama summoned Froman and Kirk to the White House for consultation. They brought some good news: Mulally, the UAW, and Michigan lawmakers had signed off on the five-year deal.

At 10:30 that night, Obama called Lee with a framework for an agreement, including the five-year language. In an hour-long conversation, their second since a North Korea artillery barrage killed four South Koreans on Nov. 23, Obama stressed the importance of a trade pact to the two countries' strategic relationship. Lee was noncommittal, though he wanted the Maryland negotiations to continue.

On the morning of Dec. 2, with the talks still stalled, Froman suggested a walk with his counterpart, Trade Minister Kim Jong Hoon, who had been ducking outside to smoke. Froman and Kim strolled alongside the nearby lake, which was in the process of being dredged. Froman warned that failure would be a missed opportunity for Seoul to improve ties with Washington, the officials say. Kim relented, as long as Korea could prolong tariffs on U.S. exports of pork products to his country from 2014 to 2016. He also wanted a more generous allocation of temporary work visas. After midnight, Froman e-mailed Air Force One, en route to Afghanistan, that they had a deal.

The accord allows the U.S. to end its 2.5 percent auto tariff in five years. South Korea will cut its 8 percent tariff on U.S. automobile imports to 4 percent immediately instead of eliminating it, a White House fact sheet says. Ford and other U.S. automakers can send 25,000 cars that meet U.S. safety standards annually to South Korea, even if they do not meet Korean standards.

Not everyone is pleased. Senate Finance Committee Chairman Max Baucus, a Montana Democrat who had demanded that South Korea drop restrictions on U.S. beef imports from cattle older than 30 months, said he was unhappy with the agreement. American beef producers will gain an advantage over Australia under a 15-year phaseout of a 40 percent tariff.

The South Korea deal has brought Obama some rare praise from the U.S. Chamber of Commerce, which fought the President's agenda on health care and financial regulation. "The Administration has done its part," U.S. Chamber of Commerce President Thomas Donohue said in a statement. Now, he said, the Chamber will help round up votes. —*Hans Nichols and Mark Drajem*

The bottom line *Obama hopes a South Korean trade deal will improve ties with American business and pave the way for more accords with other nations.*

Dec. 2 Morning
South Korean negotiator Kim Jong Hoon rejects the five-year proposal. Lead U.S. negotiator Michael Froman, noticing that Kim is a smoker, invites him to walk outside along a nearby manmade lake. With the entire delegation looking on from a window, the two agree on the contours of a deal in an hour-long stroll.

Dec. 2 9:17 p.m.
Froman calls Air Force One, en route to Afghanistan on a secret trip, to report that a deal is close, including the five-year tariff phaseout. After midnight, he e-mails Air Force One that he has a final accord.



Dec. 1 10:30 p.m.
Obama calls South Korea President Lee Myung Bak. In an hour-long talk, he proposes the outlines of a deal with the five-year tariff phaseout.

ALAMY(1); BLOOMBERG(4); GETTY IMAGES(5)

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

32,000

Number of post offices in the U.S.

Postal Service

A Reckoning Ahead For the U.S. Mail

▸ The new Postmaster General may need to seek a federal bailout

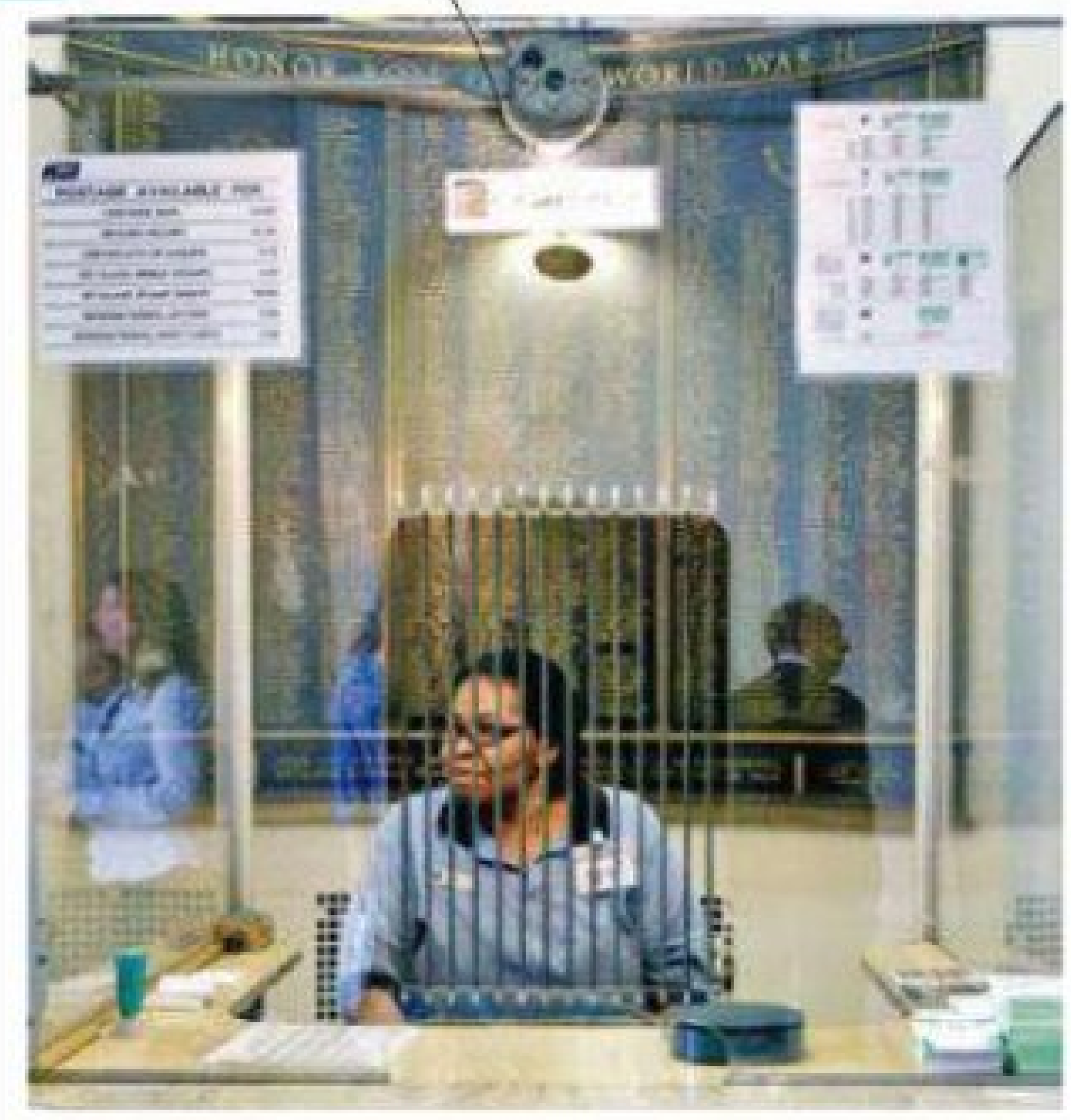
▸ "We have too many post offices," says the new House overseer

Imagine a company that reported losses in 14 of the past 16 quarters, has too many retail outlets by its own admission, and relies heavily on work done for its two biggest competitors for revenue. Any management consultant would recommend the obvious: Close unnecessary offices, lay off workers, expand into new lines of business, and raise prices.

But this is the U.S. Postal Service. It's expected to show a profit without a government subsidy, yet Congress, powerful labor unions, and even its own regulators are preventing it from making hard-nosed business decisions. The result could be a painful restructuring or a government bailout before the fiscal year ends next Sept. 30.

Patrick R. Donahoe is charged with fixing the mess. A 35-year postal veteran, he became Postmaster General on Dec. 4. Donahoe told bulk mail customers on Nov. 18 that the service's costs will exceed revenue by $2.7 billion, even after borrowing $3 billion from the U.S. Treasury, the annual legal limit. Total debt, now $12 billion, by law can't exceed $15 billion. Revenues in fiscal 2010 were $67 billion.

The USPS now faces the prospect of tougher scrutiny when Republicans take control of the House in January. Representative Jason Chaffetz (R-Utah), in line to chair the House subcommittee that oversees the service, could try to impose a restructuring by shutting some of the



32,000 post offices. "We have too many post offices," he says. He suggests bypassing congressional opposition by using a federal commission, similar to the kind used to close military bases, to identify which post offices to shut.

The USPS's problems are well known: More customers are paying bills

Why the USPS Lags the Rest

Other countries' postal systems are in better financial shape than the U.S. Postal Service because they can offer services beyond mail and package delivery, and their governments cover some employee health-care costs and most retiree costs. In the U.S., the Postal Service is expected to be self-sufficient, yet its ability to run itself like a business is restricted. —*Carol Matlack*



There are 596,000 U.S. postal employees



U.S.

The U.S. Postal Service is an independent federal agency that is expected to make a profit.

Services

It's allowed to offer only limited non-mail services, including packaging, money orders, and greeting cards.

Performance

In the fiscal year ended Sept. 30, it showed an $8.5 billion loss on $67 billion in revenue. The service may need a bailout because it has borrowed $12 billion and can borrow only $3 billion more. This year losses are expected to exceed that. It has a $50 billion obligation to its retiree health fund and is in a dispute with Congress over who should pay that.



Britain

The Royal Mail is fully owned by the British government, which plans to privatize it.

Services

Provides banking and insurance services along with mail delivery and shipping.

Performance

Restructuring and pension interest costs pushed the Royal Mail to a $512 million loss on sales of $14.9 billion for the fiscal year ending March 2010. It has a $12.6 billion unfunded pension obligation but does not have to pay for retirees' health care.



One of the Royal Mail's new delivery vehicles



Japan

Japan Post Holdings is fully owned by the government.

Services

Beyond postal services, it offers banking and insurance products and package delivery.

Performance

Reported $227 billion in sales and $5.4 billion in net income for the fiscal year ending March 2010. Its banking unit holds about $2.1 trillion in savings accounts. The government covers health insurance and pensions.



Germany

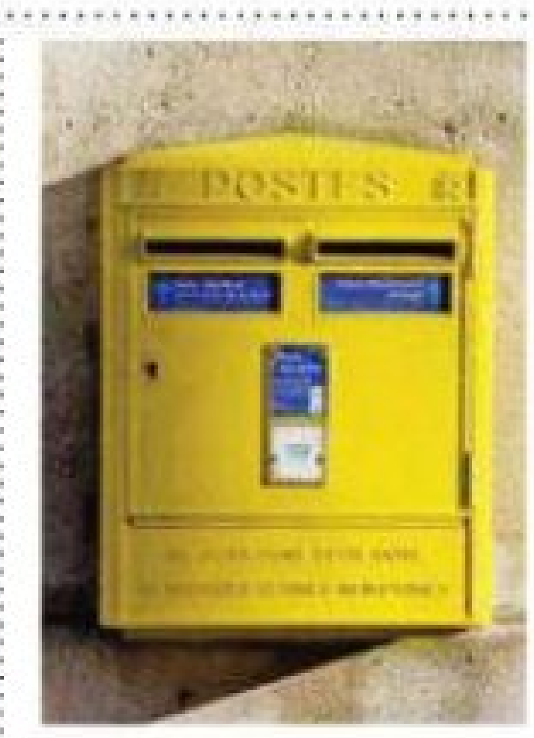
Deutsche Post is fully privatized and trades on the stock market.

Services

It mostly delivers mail and also owns DHL, a global express shipping company.

Performance

Had revenue of $64.4 billion and net income of $898 million in 2009. But the sale of Postbank, its banking unit, to Deutsche Bank contributed $842 million toward the net, a one-time gain. Many retirees are former civil servants, so the government pays most of their pensions. With fewer civil servants now, the company's share of pension costs is growing, but it does not have to pay for retirees' health care.



France

La Poste is fully owned by the French government.

Services

Offers financial services, which generate profits that offset losses on mail service.

Performance

Revenue in 2009 was $21.6 billion; net income was $740 million. In 2006 the government agreed to take over $94 billion in pension obligations to about half of those La Poste employees who are civil servants, in exchange for a $2.7 billion payment by La Poste. Last year, La Poste spent about $2.5 billion on pensions. It does not have to pay for retirees' health coverage.

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

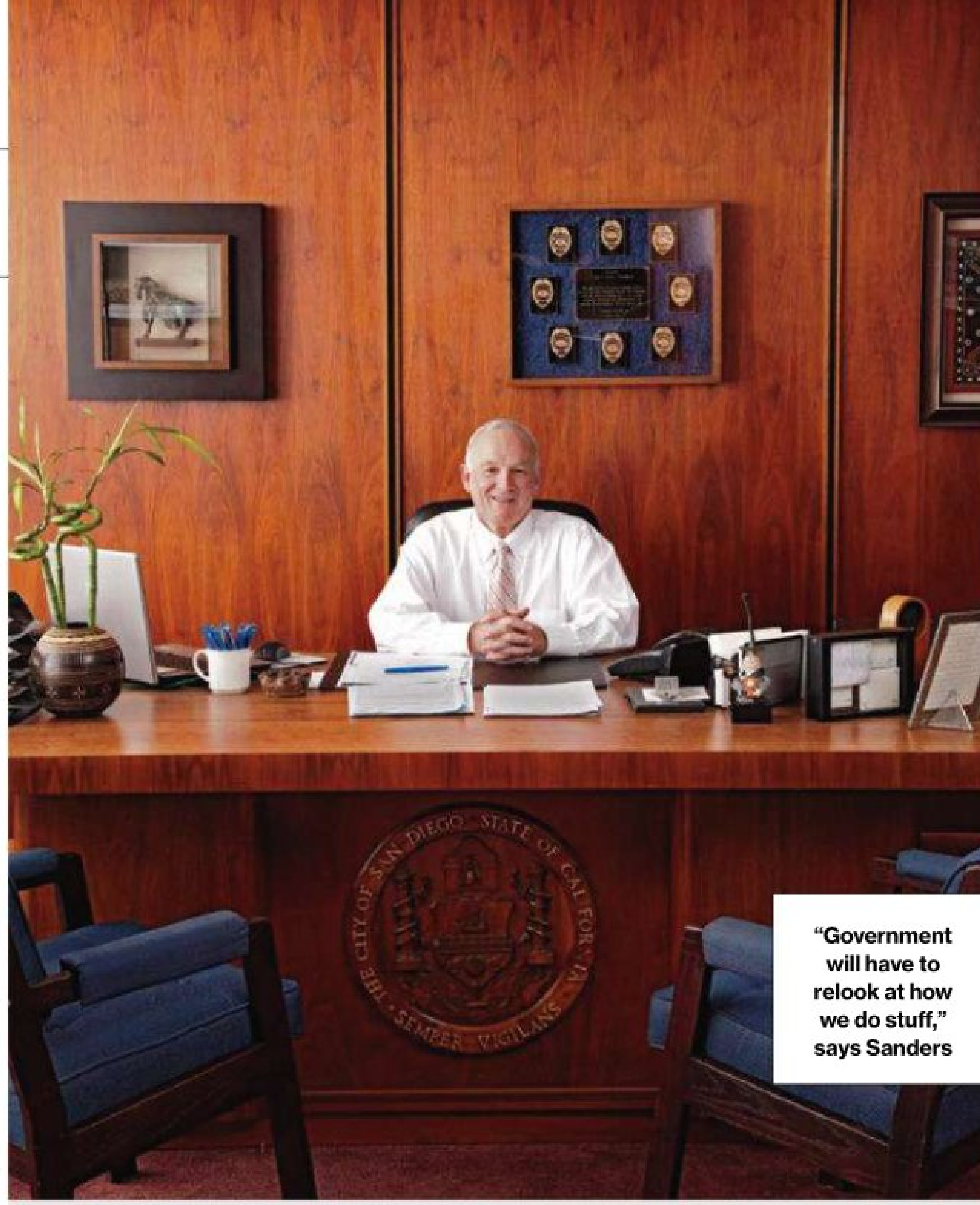
online and choosing **FedEx** and **United Parcel Service** to send overnight packages. Labor and retiree health-care costs are exploding: The service has a $50 billion obligation to its retiree health fund and is in a dispute with Congress about who should pay that balance. When the USPS reported a record annual loss of $8.5 billion last month, Representative Darrell Issa (R-Calif.), who will chair the House Oversight and Government Reform Committee, warned that the Postal Service must trim costs to match revenues so "taxpayers don't get stuck paying for a bailout."

The USPS in March released a McKinsey & Co. study that recommended slashing delivery to as few as three days a week, expanding into other business lines, and shutting post offices. Congressional Democrats and labor unions have blocked an end to Saturday delivery to prevent constituent uprisings and job losses. Despite Chaffetz's warning, even some Republican lawmakers are loath to shut facilities that are named for local VIPs–and often are the social fulcrum of small towns. The Postal Regulatory Commission, the service's overseer, on Sept. 30 denied a request to raise rates an average of 5.6 percent because that would exceed the inflation rate. The USPS is appealing. "The key issue for us," Donahoe says, "is either reducing cost per delivery or increasing revenue per delivery." The service makes $1.40 per delivery now, down from $1.80 in 2000. The last time mail volume increased was in the first quarter of fiscal 2007.

The service spends 78 percent of its budget on salaries and benefits, higher than either FedEx's 43 percent or UPS's 61 percent. The American Postal Workers Union, the larger of the postal unions, is resisting further cutbacks and instead wants to "restore work that has been outsourced or given to supervisory personnel," union President Cliff Guffey said in a Dec. 1 statement. The best hope may be that volume climbs for the USPS's two biggest customers, FedEx and UPS, which use the service for last-mile delivery, since mail carriers go to all 151 million U.S. addresses six days a week–at least for now.

—*Angela Greiling Keane*

The bottom line *The U.S. Postal Service, blocked by Congress, unions, and regulators from making tough business decisions, may need a bailout next year.*



"Government will have to relook at how we do stuff," says Sanders

PHOTOGRAPH BY AMANDA FRIEDMAN FOR BLOOMBERG BUSINESSWEEK

Public Finance

San Diego's Tough-Love Pension Proposal

- The mayor wants new employees to use 401(k)-like plans
- "San Diego is the leader, the bleeding edge"

After San Diego voters rejected a budget-balancing half-cent sales tax increase last month, Mayor Jerry Sanders unveiled what he calls a radical idea: He'll ask voters to eliminate the city's traditional defined-benefit pension plans for new employees, offering them 401(k)-like savings accounts instead. "We saw the private sector go through this," the 60-year-old Republican says. "Government will have to relook at how we do stuff as well."

Falling tax revenue and poor pension fund investment returns have put a squeeze on cities from New York to San Jose. Many are cutting services and laying off employees to meet rising retiree costs. States are struggling, too; Illinois may even issue bonds so it can make pension fund contributions. The pressures may lead more mayors to explore the 401(k) option. "This approach will certainly receive some attention," says Christopher Hoene, research director for the National League of Cities.

There are already signs investors are growing weary of cities' weakening finances. Interest rates on top-rated, tax-exempt bonds have risen by nearly one-third since September. Cities may have more trouble borrowing under legislation proposed on Dec. 2 by Republican Representatives Devin Nunes (Calif.), Darrell Issa (Calif.), and Paul Ryan (Wis.). Their bill would bar cities and states from issuing tax-exempt bonds if they don't use more conservative return projections that could result in higher estimates of pension liabilities. "Lucrative pension promises are being made to public employees that taxpayers simply cannot afford," Nunes said in a Dec. 2 statement.

Defined-contribution plans such as 401(k)s, where employees bear the risk of poor investments, are a rarity in the public sector. Only 17 percent of government workers have such accounts, about one-third the number in the private sector. Says Chuck Reed, the

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

mayor of San Jose, which is also considering cutting pension benefits to new employees: "San Diego is the leader, the bleeding edge."

America's ninth-largest city, with nearly 1.3 million people, San Diego earned the nickname "Enron by the Sea" in 2004 for a pension fund scandal that led to the resignation of its mayor and a half dozen city officials. Sanders, who had retired as the city's police chief, was elected in a special 2005 contest. The following year the city settled Securities and Exchange Commission charges that it had committed securities fraud by underreporting pension liabilities.

Even after closing a $179 million deficit this year, San Diego faces a $72 million budget gap for the fiscal year beginning July 1 and has a $2.1 billion unfunded pension liability. The city has trimmed costs by eliminating 1,400 of its 11,000 employee positions, closing some public restrooms at the beach and ending police horse patrols in scenic Balboa Park. Sanders says his proposal will save the city money, though he doesn't have an estimate yet.

Sanders is hardly a rebel, though he has surprised voters before. Three years ago, in a tearful news conference, he said he would no longer oppose gay marriage, revealing that his adult daughter, Lisa, is gay. "He's a bridge builder," says Brian Adams, a political science professor at San Diego State University. "He's trying to find some sort of consensus way out." Michael Aguirre, a Democrat and former city attorney, questions whether the mayor is going far enough. The city should declare bankruptcy and then renegotiate current employee contracts in court, he says.

Others criticize Sanders for excluding police and firefighters from the 401(k)-like plans on grounds that it'll hurt recruitment. After 26 years as a police officer, he collects a $90,000 city pension on top of his $94,000 mayoral salary. "He's the ultimate double-dipper," says Steven Kreisberg, director of collective bargaining at the American Federation of State, County, and Municipal Employees. The mayor notes that his current salary is not counted toward pension benefits. Michael Zucchet, general manager of the 4,000-member San Diego Municipal Employees Assn., says the measure, which could come up for a vote as early as 2011, is unnecessary. He says the city has already eliminated retiree health-care coverage, reduced its maximum pension payouts, and cut in half pension fund contributions for new employees. "We've been cutting for five years," Zucchet says. —*Christopher Palmeri*

The bottom line *With pension costs soaring in San Diego, Mayor Jerry Sanders wants voters to approve a 401(k)-like plan for city workers.*

Financial Regulation

Sheriff Warren Rounds Up Her Deputies

▶ The consumer finance watchdog extends her reach with state AGs

▶ "We can react more quickly than a federal agency"

Elizabeth Warren, the Harvard University law professor selected by President Barack Obama to police consumer finance, is wooing state attorneys general to act as her deputies. Warren, who is on leave from Harvard, may even seek approval to bankroll their work. The state prosecutors "are natural partners for the consumer agency," she said in an interview. "There are regulators in Washington that used to prevent state attorneys general from protecting consumers."

87

Percent of Bloomberg National Poll respondents who prefer that Democrats and Republicans work together even if it means compromising some principles, rather than sticking to their principles and getting nothing done.

DATA DEC. 4-7 POLL BY SELZER & CO. OF 1,000 ADULTS; MARGIN OF ERROR IS PLUS OR MINUS 3.1 PERCENTAGE POINTS

The Dodd-Frank regulatory reform law gives state prosecutors the right to enforce regulations written by the Consumer Financial Protection Bureau that Warren is setting up. Attorneys general can also petition the new agency to issue specific rules after it officially opens for business in July 2011.

The new geniality is a departure from the recent past. Before the law was enacted in July, AGs tangled repeatedly with the Office of the Comptroller of the Currency, which cited the doctrine of federal preemption to block states from enforcing stronger banking laws. In one example, Attorney General Andrew Cuomo, now governor-elect of New York, sued the federal government for the right to enforce state consumer-protection rules that the OCC said clashed with its own regulations. The Supreme Court ultimately decided in New York's favor in 2009. "We have had a difficult relationship with the federal banking regulators," says James Sugarman, an assistant attorney general in Washington State, "and we have great hopes that we will work as equal partners with the new bureau."

During the financial reform debate, Wall Street argued for federal preemption, saying it would prevent a morass of different rules. "We're not in favor of 50 states having enforcement, because that means it will be really hard" to service customers, **JPMorgan Chase** Chief Executive Officer Jamie Dimon said last December. Ed Mierzwinski, a director at U.S. PIRG, which advocates for consumers, dismisses such complaints. "There are many regulations, like tax systems, that modern companies deal with profitably across state lines," he says.

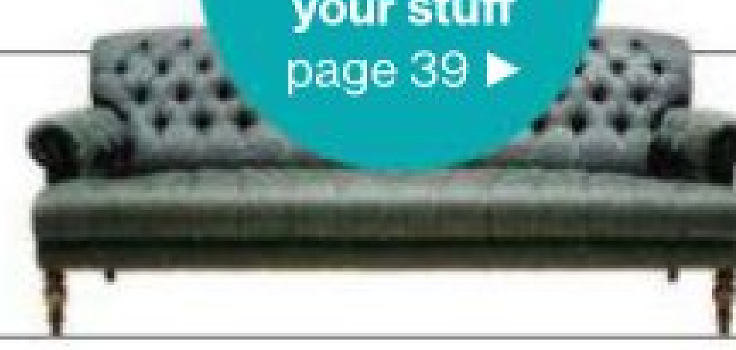
The attorneys general say they now talk with Warren regularly as she sets up the new bureau. On Nov. 30, Warren traveled to Fort Lauderdale to plot strategy at the prosecutors' winter meeting. North Carolina Attorney General Roy Cooper says she has sought the AGs' help in forming new policies for mortgages and credit cards, her priorities. "We are the initial portal of complaints from consumers, and we can react more

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Online rental markets for your stuff page 39 ▶



quickly than a federal agency," says Cooper, a Democrat.

During the Florida meeting, Warren says, the state prosecutors asked if she could make federal money available to fund state enforcement efforts. She's considering the idea, which has precedent. The U.S. Health and Human Services Dept. gives states grants to finance prosecutions of Medicaid fraud, says Indiana Attorney General Greg Zoeller, a Republican. Zoeller is now working with Warren, despite worries that state AGs will get hooked on federal cash. "I fear that over the years, the bureau will dictate to the independent attorneys general how we do our job," Zoeller says. —*Carter Dougherty*

The bottom line *Consumer finance watchdog Elizabeth Warren hopes state prosecutors will help her detect fraud and enforce new rules.*

Lobbying

Facebook Looks For a Few Good Friends

▶ The company is building its Washington lobbying presence

▶ "Privacy could be the real Achilles' heel for this company"

Facebook is trying to find friends in Washington—the old-fashioned way. The world's largest social networking site is expanding its six-person Washington office, spending more on lobbying, and meeting with lawmakers, congressional staff, and privacy experts who question whether the company is adequately protecting the personal information of its 500 million users. Founder Mark Zuckerberg is also on a charm offensive to show he's on the right side of the debate. "Privacy and making sure people have control over their information is, I think, one of the most fundamental things on the Internet," Zuckerberg said in a *60 Minutes* interview on Dec. 5.

The prospect of new federal privacy regulations adds uncertainty to the outlook for Internet stars such as Facebook and **Google**, which get much of their revenue from ads targeted at users. Congress, the Federal Trade Commission, and the Commerce Dept. are considering additional—and clearer—privacy safeguards on Internet companies that amass user data. The White House has a task force looking at concerns, and the FTC announced on Dec. 1 that it favored a "do not track" option for Internet users to block monitoring of their online movements. "Privacy could be the real Achilles' heel for this company," says Sunil Gupta, a business professor at Harvard Business School.

So far, privacy concerns haven't stopped Facebook's growth. Its 2010 revenue is expected to double, to $1.4 billion, according to two people familiar with Facebook's figures. The company channels communication among subscribers who approve access by people considered "friends" and helps advertisers target consumers based on user demographics and interests. The company says it gives users the ability to determine how much information they share and says it doesn't reveal the identities of individuals to third parties. In talks with policymakers, "it's about how users have control over information," says Marne Levine, a former top aide to Lawrence Summers, director of the White House National Economic Council, and who joined Facebook in June to head its Washington office.

Facebook may have less to worry about from a do-not-track option than other Internet companies because it doesn't follow people across the Web. In May, Facebook introduced simpler privacy settings and said it was reducing the amount of publicly available user information. In October it said some third-party software applications had transferred user ID numbers in violation of company policy. The company suspended some application developers and said it was taking steps to prevent user information from being passed to outsiders.

Even as lawmakers consider clamping down, many of them are Facebook users, including the co-chairmen of the Congressional Privacy Caucus, Representatives Joe Barton (R-Tex.) and Edward Markey (D-Mass.), who are leading the charge over alleged privacy lapses. Senate Commerce Committee Chairman Jay Rockefeller (D-W. Va.), who is not on Facebook, says he plans to draft Internet privacy legislation next year. This year almost every candidate for the House and Senate used Facebook to reach voters, says company spokesman Andrew Noyes.



Former White House aide Levine heads Facebook's D.C. office

Facebook executives have leased larger office space and are looking to hire a public policy expert and another press spokesman, which would increase the Washington team to eight from none three years ago. They say they are mindful of how Google, **Microsoft**, and **Apple** got caught up in regulatory and legislative issues. "We have the benefit of having seen those companies and their experiences in Washington and learning from them," says Timothy D. Sparapani, a former privacy expert for the American Civil Liberties Union who became Facebook's first Washington lobbyist in 2009. Jeffrey Chester, executive director of the Center for Digital Democracy, a privacy advocacy group, is skeptical. "Facebook is a ticking privacy time bomb," he says, "no matter how much they spend on lobbying." —*Sara Forden*

The bottom line *Facebook is expanding its lobbying team to deal with Washington's growing interest in privacy and other Internet issues.*



CLOCKWISE FROM TOP: NICHOLAS EVELEIGH/GETTY IMAGES; SCOTT J. FERRELL/CONGRESSIONAL QUARTERLY/GETTY IMAGES; CAPITOL BUILDING: ALAMY; ZUCKERBERG: KIM KULISH/CORBIS

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags



© Siemens AG, 2010. All Rights Reserved.

That's why we're building them today, with customers all over the world.

It's why we're designing our technology to last longer and use fewer resources. It's why we're helping our customers reduce their CO_2 emissions. And it's why we're pioneering new answers with one of the world's largest environmental portfolios.

As a result, we were just named the best in our business sector by the Dow Jones Sustainability Index. And recognized as the top company overall by the Carbon Disclosure Project, the world's largest independent database of corporate climate change information.

Yet we'd never claim to have all the answers. That's why we're working with 190 countries. Thousands of cities. Tens of thousands of companies. In energy, industry and healthcare.

We're working with the world today to create answers that last for the world of tomorrow.

siemens.com/answers

SIEMENS

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags



StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags

Contents ▶ Chinese cell phone brands are surging 40 ▶ Carriers' text message to seniors: Friends 4ever? 41 ▶ Apple reaches for low-hanging corporate fruit 42 ▶ Innovator: Bert Straus aims for a safer football helmet 44 ● Edited by James Aley

Stranger, You Can Drive My Car



▶ Online rental markets let people make money from the excess stuff in their lives

▶ "We have these goods sitting there depreciating. These companies let you wring a little value"

In August, Jessica Derosier and her husband, Moise, drove their 2001 Ford Focus 1,400 miles from West Palm Beach, Fla., to Cambridge, Mass., where Moise was set to begin a graduate program in education at Harvard University. Once classes began, the Focus started gathering dust. "We live very close to the Harvard Square area," says Jessica, who works in the university's admissions office. "My husband and I both walk to where we need to go."

The Derosiers didn't want to ditch the car, which they still use for grocery runs and other occasional trips, but hated paying to park and insure something they used so infrequently. They found a solution in **RelayRides**, a Cambridge startup that helps car owners rent their vehicles. In November, the Derosiers' first full month using the service, they rented out their Focus about 20 times and netted close to $500—more than enough to cover the costs of upkeep.

RelayRides is in the vanguard of online services bringing the leasing office to the home. **Spride Share**, **Zilok**, and **Airbnb**, to name a few, are creating online rental markets for all manner of private property, from automobiles to power saws to spare bedrooms. While lending goods is nothing new, the Internet presents an opportunity to make markets where none existed before to match renters and lenders who never would have found each other. "We have these goods that are sitting there depreciating," says Judith Chevalier, an economist at Yale University School of Management. "These companies let you wring a little bit of value out of them." And the companies are betting that "little bit of value," when wrung out of thousands or millions of goods, can add up to a big business. "**EBay** became a billion-dollar company by monetizing the stuff in your house," says Brian Chesky, co-founder and chief executive officer of Airbnb, which specializes in spare bedrooms, among other places to stay. "How big could you be if you monetize the house?"

A good example of how peer-to-peer rental networks operate is RelayRides. The company is similar to car-sharing programs such as **Zipcar**, except that RelayRides doesn't own a fleet. Private vehicle owners add their cars to the system by filling out an online form, choosing the hours the car is available, and setting a price. Potential renters log into the RelayRides site and book vehicles at hourly or daily rates. (The Derosiers' Focus goes for $6 an hour on weekdays; a newer car like a 2008 Toyota Prius costs $8.) RelayRides handles the insurance, credit-card processing, and installation of a small electronic mechanism that goes inside

ALAMY(9); GETTY IMAGES(4); CORBIS(1)

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Buyout firm Carlyle mulls an IPO page 47 ▶



the wheel well of each car. The device allows renters to unlock autos with a membership card. RelayRides keeps 35 percent of each transaction.

The company is still minuscule: Its Boston-area-only network has about 50 cars and 1,000 renters. There is already competition if RelayRides expands: Spride Share operates a similar business in San Francisco and **WhipCar** runs a service in the U.K.

The concept of peer-to-peer rentals is well established for other types of goods. Airbnb has built a network of 50,000 private properties, ranging from spare bedrooms to castles and tree houses, in 10,000 cities around the world. "We're essentially unlocking the doors to all these spaces all over the city," says CEO Chesky. Other sites, such as Zilok and **Share Some Sugar**, choose not to specialize and let users rent anything they please. At **SnapGoods**, which launched in New York in July, you can rent an ice cream maker ($5 a day) or a home pickling kit ($4). The most popular items are high-end electronics such as iPads ($20), which people want to test-drive before buying outright. Co-founder and CEO Ron J. Williams says he sees a path to profitability in this try-before-you-buy behavior, and is talking to product manufacturers about sponsoring rentals of their own gear. That would supplement revenues from the commissions he plans to charge on other transactions. "We look at ourselves as agents," he says. "If you are a musician and your amp blows, you can e-mail or call your friends. Or we can ask hundreds of people within a few miles of you."

Peer-to-peer rental sites generally include a rating system like that used on eBay. RelayRides founder and CEO Shelby Clark says that during the six months he's been in business, he's had to remove only one member–and it was a car owner, not a renter. (The member's car often wasn't where he said it would be, causing headaches for renters.)

There are more formal ways to ensure safety. RelayRides screens aspiring renters by examining their driving records and requires cars to have a recent safety inspection before joining the network. Airbnb offers lenders the option to require a security deposit. SnapGoods users can import their friend lists from **Facebook** and **Twitter** and opt only to interact with people in their social network. Although such checks may not be enough to assuage the concerns of every potential member, RelayRides user Derosier says they've worked for her: She hasn't found any scratches or dings on her Focus. "I think one time someone left a piece of paper in the car," she says.

Not everything lends itself to rental markets, of course. It's probably still easier to just buy, say, a screwdriver than to arrange to rent one. Rental sites may narrow in on the bigger-ticket items, like cars and homes, which can yield significant income for renters. (Clark says the average RelayRides car owner makes $250 a month.) Some in tech think the rise of rental markets signifies nothing less than a historic shift toward a more fluid sense of ownership. "Fifty years of advertising have convinced people that owning stuff is part of their status," says Rachel Botsman, a former marketer and co-author of a recent book on sharing sites called *What's Mine Is Yours: The Rise of Collaborative Consumption*. "Future generations are growing up expressing themselves through digital means. They're thinking of themselves as the 'we' generation." —*Barrett Sheridan*

The bottom line *Online rental sites are letting consumers make money on their dust-gathering cars, tools, and whatever else they don't use much.*

89.1

PERCENT

Estimated share of e-mail sent in 2010 that's spam—up 1.4 percent from 2009

DATA: SYMANTEC

Handsets

Here Come the Chinese Phone Manufacturers

▶ After years of trailing global giants, mainland companies are catching up

▶ For young Chinese, "buying a phone is like buying a pair of jeans"

Even as China has grown to become the world's largest cellular market, with more than 800 million mobile-phone users, its handset manufacturers have trailed big global brands both at home and abroad. This year, that's finally started to change. A few numbers tell the story: Shenzhen-based **ZTE** has jumped to No. 4 from No. 7 a year ago in terms of phones shipped, behind only **Nokia**, **Samsung**, and **LG**, according to market researcher iSuppli. Its cross-town rival, **Huawei Technologies**, is tied for No. 9, while **TCL** (which owns rights to the Alcatel brand for cell phones) and **Beijing Tianyu** are Nos. 11 and 12, respectively. "These guys are really, really taking market share now," says Sigve Brekke, head of Asia for **Telenor**, a Norwegian wireless carrier with operations in India and other Asian countries.



G'Five's GC90: The company is big in India and other emerging markets

The Chinese gains have come largely at home as the mainland's three cellular operators last year started offering 3G service. Now the Chinese aim to boost sales in the U.S. and Western Europe by offering smartphones that carriers can sell for less than $100 apiece, says Tina Teng, an analyst with iSuppli. "If they want to get into the more mature markets, every Chinese company needs to have a good, solid smartphone," Teng says.

While few Western consumers will know the Chinese brands, telecom operators are very familiar with the bigger names. In recent years, Huawei and ZTE have made enormous gains in selling networking equipment to carriers

TOP: ANDREW CUTRARO

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags

worldwide. They're aiming to build on those telecom relationships to sell handsets. "We have a very strong big brother: the Huawei infrastructure business," says Victor Xu, chief marketing officer for Huawei Device, a subsidiary that makes handsets such as the new Ideos smartphone. While he acknowledges the Chinese won't soon compete at the very highest level in smartphones, he figures they can carve out a profitable niche among consumers who can't afford top brands. "If you can achieve 70 percent of the user experience of the iPhone, it's good enough," Xu says.



Alcatel OT-880A: Available in Europe; TCL owns the Alcatel mobile brand

Smaller Chinese companies that started out as suppliers to multinationals are growing fast. **Zoom Technologies** made phones for **Motorola** and others, then launched its own handset brand last year. In June, Zoom bought a 185-person design firm in Beijing to help it develop phones to suit the fickle tastes of younger buyers. "Youngsters in China don't buy a phone and then wait till the contract is up before buying another one," says Anthony K. Chan, Zoom's chief financial officer. "They buy one on their birthday, one on Valentine's Day, one on Chinese New Year. Buying a phone is like buying a pair of jeans." The company expects its sales to grow as much as 38 percent this year, to $260 million.

G'Five International, founded in 2003 as a producer of molds for electronics parts, started making inexpensive handsets in 2007, mostly for emerging markets. The Hong Kong company ships about 1.5 million phones a month from factories in China to India, Egypt, and other developing countries. While G'Five's cheapest models run just $30-$40 apiece, the company plans to get into developed markets with more sophisticated phones, says Chief Executive Officer Winston Zhang, including Android smartphones next year. The company already has 300 handsets in its portfolio, and is working on more. "We can have 500 models, because we can design very fast," says Zhang.



Huawei Ideos: Android-powered and co-developed with Google

Longtime China tech watchers may have a sense of déjà vu. A decade ago, TCL, **Ningbo Bird**, and other Chinese manufacturers seemed poised to displace big foreign names as the mainland's dominant brands. However, Nokia and Samsung quickly recovered, overwhelming the locals with feature-rich phones at both the top and bottom of the market. "This time is different," says Vittorio Di Mauro, a former **Alcatel** executive who is now a vice-president at TCL and divides his time between company headquarters just north of Hong Kong and TCL's design center in Milan. "Today we are truly a global company." When TCL initially tried to play in the big leagues in the early 2000s, almost all of its sales were in China; today, China accounts for just 7 percent of its revenue. TCL's Hong Kong-listed shares have more than quadrupled this year, and revenue is on track nearly to double.



ZTE's Salute: $20 with a two-year contract in the U.S. at Verizon Wireless

Another important change: It's now easier for companies to break into manufacturing. A decade ago, handset makers needed to develop much of the electronic guts of their phones. Today, suppliers such as Taiwanese semiconductor shop **MediaTek** offer phone systems on a single chip, greatly simplifying the design and production of handsets. Software isn't the barrier to entry it once was, either: Instead of developing their own sophisticated software, the Chinese can now adopt Android, **Google**'s open operating system. "For the Chinese industry," Di Mauro says, "Android levels the playing field." —*Bruce Einhorn*

The bottom line *After years of lagging multinational rivals, Chinese handset makers are growing fast. Now they're aiming for Western markets.*

Mobile

OMG! It's a Text From Granny



▶ Mobile operators are trying to persuade seniors to text

▶ "It's the highest-margin product the carriers sell"

Connie Finn had never sent a text message from her cell phone before this year. Then she got a plea from her 26-year-old daughter. "She said she'd be in touch a lot more if I'd just get a texting plan," says the 54-year-old homemaker from Kirkland, Wash. "I was reluctant because of my bad spelling, but that was before I realized young people don't take time to spell correctly, either."

As growth in voice revenue slows, carriers are pushing data services including texting. Wireless operators see opportunity in people like Finn because relatively few people over 50 send texts. "It's a very attractive market for us," says Michael Woodward, the executive who oversees **AT&T**'s handset portfolio.

Just 42 percent of Americans aged 50 or older sent texts in any month last quarter, vs. 85 percent of 13- to 34-year-olds, according to researcher comScore. GreatCall, which offers simple calling plans and handsets under the Jitterbug brand, expects the rate of texting among those 55 and older to hit 80 percent within three years, from 30 percent today. "The beauty of texting is that somehow it's psychologically embedded in us to respond immediately," says Michael Shore, a 58-year-old real estate agent in Beverly Hills who began texting this year to reach clients. "It's almost like being asked a question face-to-face."

The demographic is important to carriers' long-term pros-

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags

pects. By 2025, 17.9 percent of Americans—63.9 million people—will be 65 or older, up from 12.7 percent in 2008, according to the U.S. Census Bureau. Texting is a big driver of the industry's profits. AT&T, **Verizon Wireless,** and **Sprint Nextel** typically charge 20¢ per message sent or received, and offer unlimited plans for $10 to $20 a month. Yet each text costs carriers less than one-tenth of a cent to send, says Piper Jaffray analyst Chris Larsen. "It's the highest-margin product the carriers sell," Larsen says. "If you've got that over-50 crowd not texting, that's all incremental revenue that carriers could realize."

To reach the older market, Sprint offers free tutoring on cell phone basics in stores, including instruction in reading and sending texts. To attract more seniors, AT&T has boosted advertising in media that draw older people, including *AARP The Magazine* and *Dancing with the Stars*. Phone manufacturers **Samsung Electronics** and **Pantech** make handsets with oversize buttons and bigger screens that are aimed at the elderly.

For Finn, the Washington homemaker, another obstacle was the sometimes baffling abbreviations common in texting: OMG for "Oh my God," LOL for "Laughing out loud," and the more obscure ROTFL for "Rolling on the floor laughing" or LYKYAMY for "Love you, kiss you, already miss you." In the end, she chose not to be intimidated. "I just invented my own," she says. "My daughter doesn't always know what they mean, but now I am surprised by how much I enjoy it." —*Greg Bensinger*

The bottom line *Cellular carriers are hoping to persuade more people over 50 to send text messages, which offer very high profits.*

Quoted

"I can hurt you."
—Vitaly Borker to a customer of his eyewear e-commerce site, DecorMyEyes.com, according to a complaint filed in federal court in Manhattan. Borker was arrested on Dec. 6.



Sales

Apple's Quiet Pitch To Businesses



In-store briefing room: Apple is trying to make that Briefing Room™

▶ It's increasing sales to corporations —a market it used to neglect

▶ "They're going after the low-hanging fruit"

Susan Maus, an online marketing consultant, arrived at the rendezvous point at 8:30 a.m. on Oct. 13. Maus and a few other guests were escorted across the empty sales floor of the Apple Store in Minneapolis, down a hallway, up an unmarked elevator, and into a conference room. For 90 minutes, **Apple** reps talked with Maus and a dozen other consultants and shop owners about how the company's products could improve their businesses. The attendees played with iPads to check out various business apps, including one that lets users run a presentation on a big plasma screen. "It was pretty slick," says Maus. "They're really reaching out to businesses now."

Why so hush-hush? Because selling to Corporate America isn't the vibe Apple is going for. Apple makes consumer products, and Steve Jobs has long said that no company can focus on consumers and corporate customers at the same time. He should know: Jobs has had bad luck attempting to cater to business in the past—the Lisa PC in the early 1980s flopped, as did his NeXT computer in the early 1990s. Apple declined to comment for this story.

With so many businesspeople lusting after Apple products—count the iPads at your next meeting—the company can grab a share of IT budgets without having to make unsexy back-office gear. Last month Apple discontinued its only such product, the heavy-duty Xserver line of servers. "Apple is getting pulled into a lot of opportunities because of the popularity of the iPhone and iPad," says Piper Jaffray analyst Gene Munster.

Some IT executives are receiving their first-ever sales calls from Apple. Darren Augi, IT vice-president for **Dimension Data**, a South Africa-based systems integrator, was contacted by Apple salespeople in April, when the iPad was introduced. "We'd never heard from Apple," says Augi, even though about 10 percent of Dimension's 11,000 U.S. employees use iPhones.

So far, Apple has opened just five briefing rooms, including the one in Minneapolis, for chats with potential business customers. (Others are in London, Paris, Shanghai, and Philadelphia.) Apple's total corporate sales staff numbers around 200, according to Munster. That's tiny next to the tens of thousands employed by **IBM**, **Hewlett-Packard**, and **Dell**. When Apple does approach companies, it does so on its own terms. Augi says he was hoping Apple would offer assistance in recrafting Dimension's IT department around Apple products. All the salesman had in mind was a simple purchasing account to save Augi's staff the trouble of schlepping to the nearest Apple Store. "It was a very low-pressure, relaxed sales pitch," Augi says. "They're going after the low-hanging fruit."

When it comes to mobile sales, of course, Apple gets a big assist from its telecom partners. Hundreds of **AT&T**'s 8,000 salespeople specialize in helping companies find new ways of using mobile devices, says Abhi Ingle, a sales vice-president at the carrier. Ingle says much of the interest from business is about the iPad. Auto dealers are buying them for salespeople, and doctors are using them in hospitals. With no other hit tablet on the market, Ingle says, "Apple is definitely gaining 'mind share.' Who used Apple products in the past inside companies? It was very niche."

The success of the iPhone and iPad may also be rubbing off on the plain old Mac. In the past a lack of software and a big price premium kept business customers from buying. Now, if there isn't an Apple-friendly version of an application, chances are there's a compatible Web service that does pretty much the same thing. **Salesforce.com**'s Internet-based sales management system works just as well on a Mac

➔

FROM TOP: COURTESY SUSAN MAUS; ROBERT STOLARIK/NEW YORK TIMES/REDUX

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags



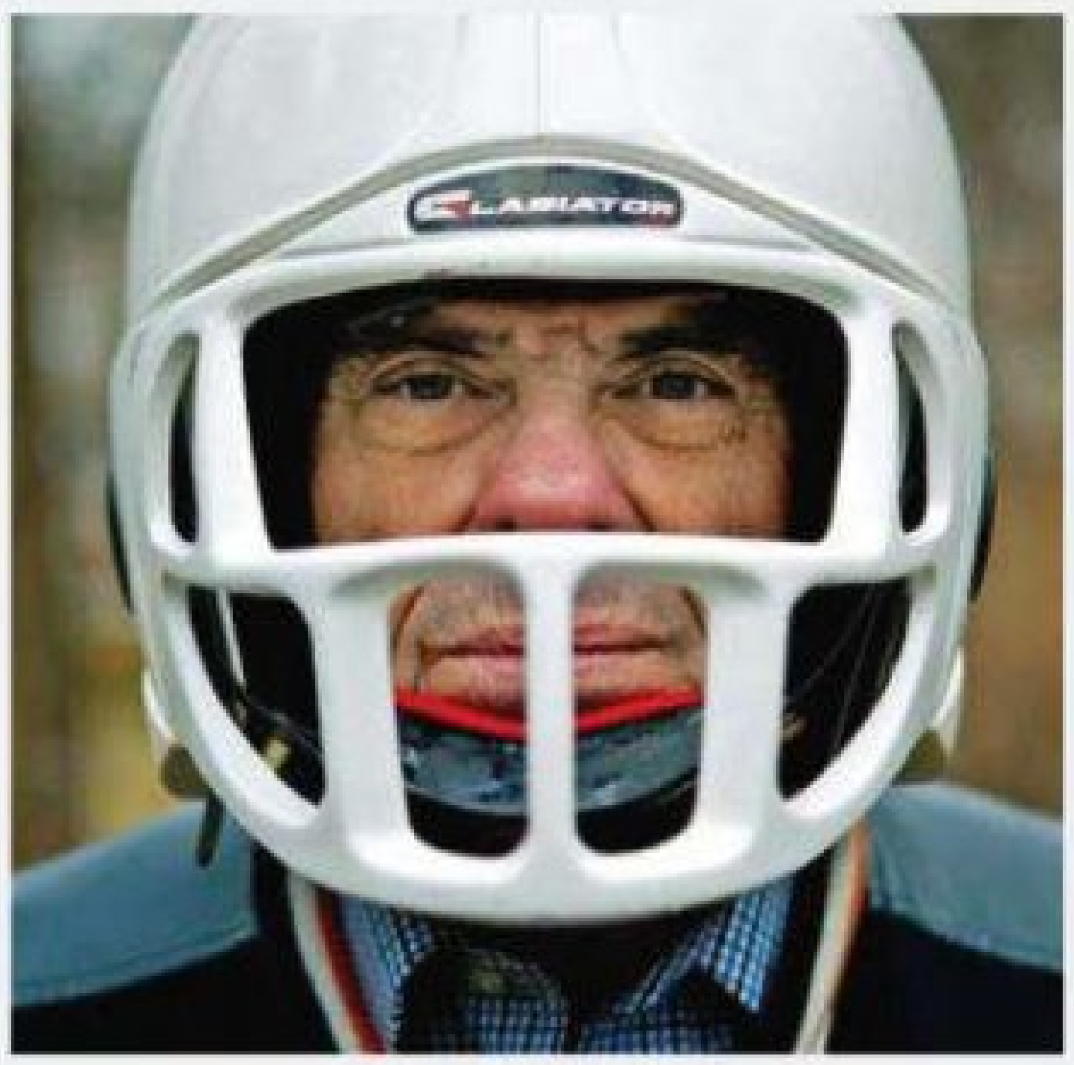
StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Innovator

Bert Straus



The serial inventor developed a helmet that's soft on the outside. It could help protect players from concussions—if they can be persuaded to wear it

As an offensive tackle for the San Francisco 49ers in their glory years, Steve Wallace knew plenty about the dizzying pain of concussions. So when he got clobbered by a linebacker in 1994, he recalls, he expected the familiar blinding aftershock. Instead, Wallace walked away uninjured because he was wearing an ungainly foam helmet protector called a ProCap. "I was just waiting for that buzz, that pain you get, but it didn't happen," he says.

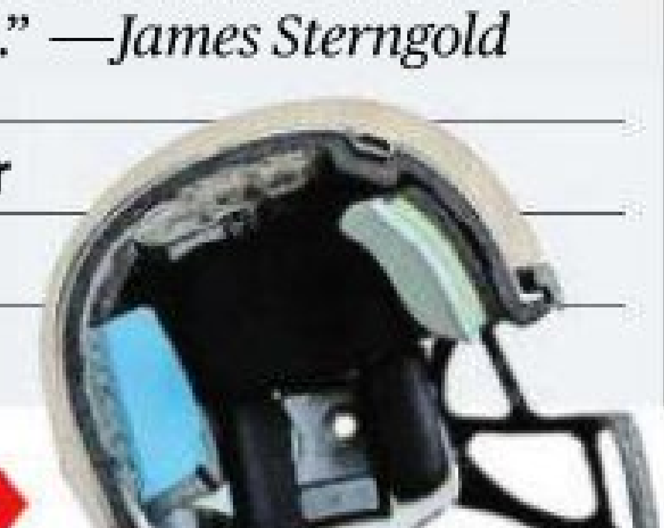
During a football season marked by head injuries and a quest to better protect players, the technology that spared Wallace may be poised for a comeback. Its inventor, a designer named Bert Straus, has incorporated the ProCap concept into a helmet he calls the Gladiator, with three layers of protection instead of the current two. The Gladiator has padding on the outside, then hard plastic, then more padding inside to distribute the energy of impact. The face mask is mounted on flexible plastic to absorb blows. "The answer is not to keep making these things harder," Straus says, smiling as he bashes his knee with one of his helmets.

The original ProCap was a curiosity worn in the early 1990s by a handful of players who had suffered concussions. It was a tough polyurethane foam shell stuck to a standard hard helmet with Velcro. Players thought it looked ridiculous, so it never caught on. "You wanted to look cool out there," says Mark Kelso, who as a safety for the Buffalo Bills wore the ProCap because of concussions. Kelso swallowed his pride and discovered, he says, that it worked well, adding years to his career. He is an investor in Protective Sports Equipment, a Pennsylvania company part-owned by Straus that made both the ProCap and today's Gladiator, now streamlined so it no longer seems like a prop from *The Jetsons*.

As an independent designer, Straus has worked on everything from dental equipment to streetcars. He designed the ProCap in the 1980s after seeing players carted from the field on stretchers. He calls the Gladiator a passion, driven by the conviction that concussions can be stopped by abandoning rock-hard helmets. The National Football League says players can wear the Gladiator if it is approved by a national standards group. Straus says he's seeking approval. The real prize, though, is the much larger market for college and youth teams, which often take their cues from the pros.

One potential roadblock is a claim by some specialists that the foam shell, because blows are absorbed rather than glancing off of it, may transfer the energy of a hit from a player's head to his neck. Straus insists the theory is not backed by evidence, and Wallace and Kelso say that's contrary to anything they experienced in years of using the ProCap. "I never had another concussion when I wore it," Wallace says. "I want the guys out there to know about this." —*James Sterngold*

The Product ▶ A soft-sided helmet called the Gladiator
The Pitch ▶ Players say it can reduce concussions
The Payoff ▶ If pros use it, younger players may follow



Cross-section

Technology

as on a computer using Windows. Early next year, Apple will launch a Mac App Store so makers of software, including business programs, can reach customers just as iPhone app developers sell games. The store will help the company compete with **Microsoft** and the 640,000 retailers, consultants, and others that distribute its products, says a person familiar with Apple's plans.

According to an October survey of IT administrators by the Enterprise Desktop Alliance, an industry trade group focused on Apple products used in businesses, Macs may be the fastest-growing computer brand in the corporate market next year, growing to 5.2 percent of the market from 3.3 percent in 2009. Pharmaceutical giant **Sanofi-Aventis** is giving Macs a closer look. More than 2,500 of the Paris-based company's 120,000 employees are using iPhones or iPads, says Michael Doyle, an IT executive at the company. Now Doyle is testing Macs and may make them a sanctioned alternative to Windows PCs. All told, Apple's sales to corporations could reach $11.3 billion in 2011, up from $7.5 billion this year, says Brian Marshall, an analyst with investment bank Gleacher & Co. in San Francisco.

$11.3 BILLION

Apple's estimated 2011 business sales, according to Gleacher & Co.

How far will Apple go to woo business customers? The company has applied for a trademark on the phrase "Briefing Room," a sign that they may become standard in larger Apple stores. Chief Operating Officer Tim Cook told analysts during Apple's October earnings call that the company would keep hiring corporate sales specialists and would expand its capacity to handle business customers. Just don't expect Apple to get too businessy. On that same analyst call, Jobs made sure no one got the idea his people were overly focused on companies. He said that without much effort from Apple, its products were "being grabbed out of our hands" by corporate buyers. "We've got a tiger by the tail here," he said. —*Peter Burrows and Adam Satariano*

The bottom line *Steve Jobs is trying to make it easier for corporate customers to buy their employees iPhones, iPads, and Macs.*

PHOTOGRAPHS BY KHUE BUI FOR BLOOMBERG BUSINESSWEEK

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags



JEFF RELIES ON TECHNOLOGY TO BALANCE HIS LIFE AND BEST BUY® TO BALANCE HIS TECHNOLOGY

Every day, Best Buy helps business owners like Jeff stay connected to what's important. Watch Jeff's story and get connected at **BestBuyBusinessDistrict.com/Stories**



SAVE $50

249.99 After Savings

Reg. Price $299.99

HP Officejet Pro 8500A Wireless All-In-One Printer

Color your world with photo-quality prints in as little as 76 seconds[1].

Roam free with wireless printing from any computer on your network.

PC or no PC, you can print straight from any compatible digital camera.

Copy both sides of an ID card on a single page.

Price valid 12/5/10 – 12/18/10 SKU: 1158048

Find the right technology for your business at your local Best Buy store and at **BestBuy.com/Business.**

BEST BUY FOR BUSINESS

[1] Print speeds vary with use. See mfg. for info on print speeds.

BEST BUY, the BEST BUY logo, the tag design and BEST BUY FOR BUSINESS are trademarks of BBY Solutions, Inc.
All other trademarks or trade names are properties of their respective owners. © 2010 BBY Solutions, Inc. BBY1107010

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags



In Mexico City, the sun is shining brightly for international business investment. That's because Mexico City offers a legal and regulatory framework friendly to international corporations, an educated professional class, tax incentives for real estate and payrolls, free trade agreements with 44 countries, and the amenities of a sophisticated, world-class academic and cultural center.

Mexico City is investing billions in new transportation and security infrastructure to make it easier to do business and enjoy life. It's a vibrant hub of research, development and innovation. And it's implementing a 15-year Climate Action Plan to make its environment one of the most sustainable in the world.

If you're seeking growth opportunities in knowledge-based industries and access to the hub of one of the world's most important emerging markets – one just a few hours away – it makes sense to think Mexico City.

Think Mexico City
mexicocityexperience.com

mexico city

CEMEX
Building the future™

MÉXICO
THE PLACE YOU THOUGHT YOU KNEW

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

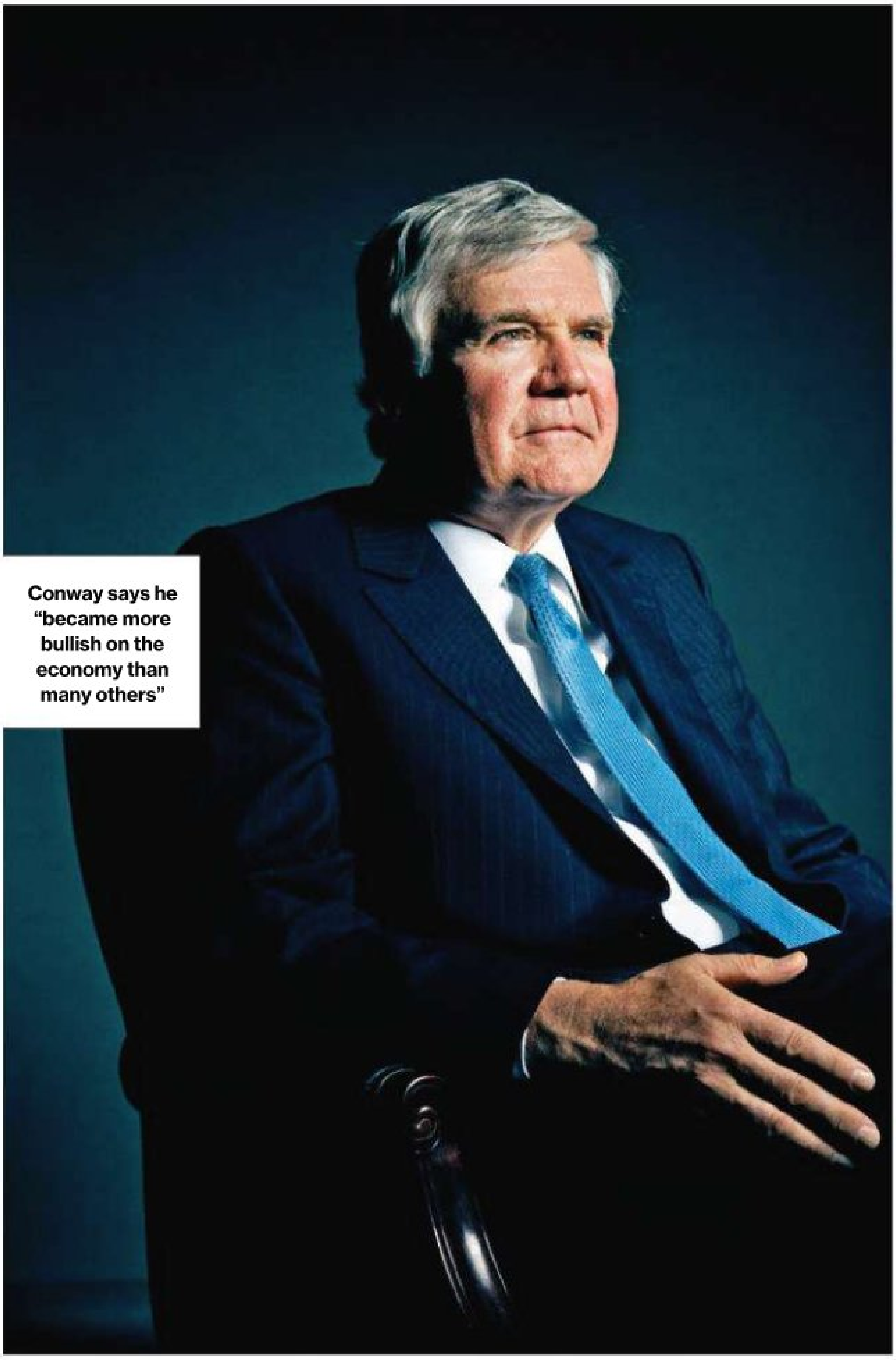
StoreMags

Contents ▶ It's the U.S. vs. the world over accounting rules 48 ▶ Top fund managers are feeling bullish 49 ▶ One Australian's never-ending housing boom 50 ▶ Sophisticated deals are hurting retirees 51 ▶ Charlie Rose talks to David Einhorn 52 ▶ Bid & Ask: Pepsi and Bordeaux 54 ● Edited by Eric Gelman

After a Two-Year Slump, Carlyle Mounts a Comeback

▶ Co-founder Conway spurs a big increase in buyout deals as the firm considers an IPO

▶ "There will be significant advantages to having a lot more capital"



Conway says he "became more bullish on the economy than many others"

PHOTOGRAPH BY ANDREW CUTRARO/REDUX FOR BLOOMBERG BUSINESSWEEK

In 2008 and 2009, **Carlyle Group**, the second-largest private equity firm after **Blackstone Group**, cut workers, liquidated a hedge fund, was forced to close a publicly traded debt fund, and saw four of the companies it owned file for bankruptcy. "I predicted the party would end badly, but it was even uglier than I thought," says William E. Conway Jr., who co-founded the firm in 1987 with David M. Rubenstein and Daniel A. D'Aniello.

Now Carlyle is on the move again—doing deals, hiring bankers to launch new ventures, and debating whether to dust off plans to sell shares to the public. Conway, 61, says he decided at the start of the year to ramp up buyouts after a two-year lull. "I became more bullish on the economy than many others, based on data from portfolio companies that showed improvement," he says, adding that the Federal Reserve's low-interest-rate policy aided dealmaking by reducing borrowing costs.

Making the most of cheap money, the firm has participated in 33 deals this year, notching a higher total value—$16 billion—than any rival. It beat out Blackstone and **TPG Capital** to buy **NBTY**, maker of Nature's Bounty, MET-Rx, and Solgar nutritional supplements, for $3.8 billion in July. In October, Carlyle agreed to buy **CommScope**, a manufacturer of fiber-optic networks, for $3.9 billion.

Amid the buying spree, Carlyle returned $5.7 billion to clients through the third quarter—more than Blackstone and **KKR** combined—compared with $2.4 billion in all of 2009. It funded the payouts by selling nine companies and adding debt to others. "When financing markets are good, they are good for both buyer and seller," says Conway.

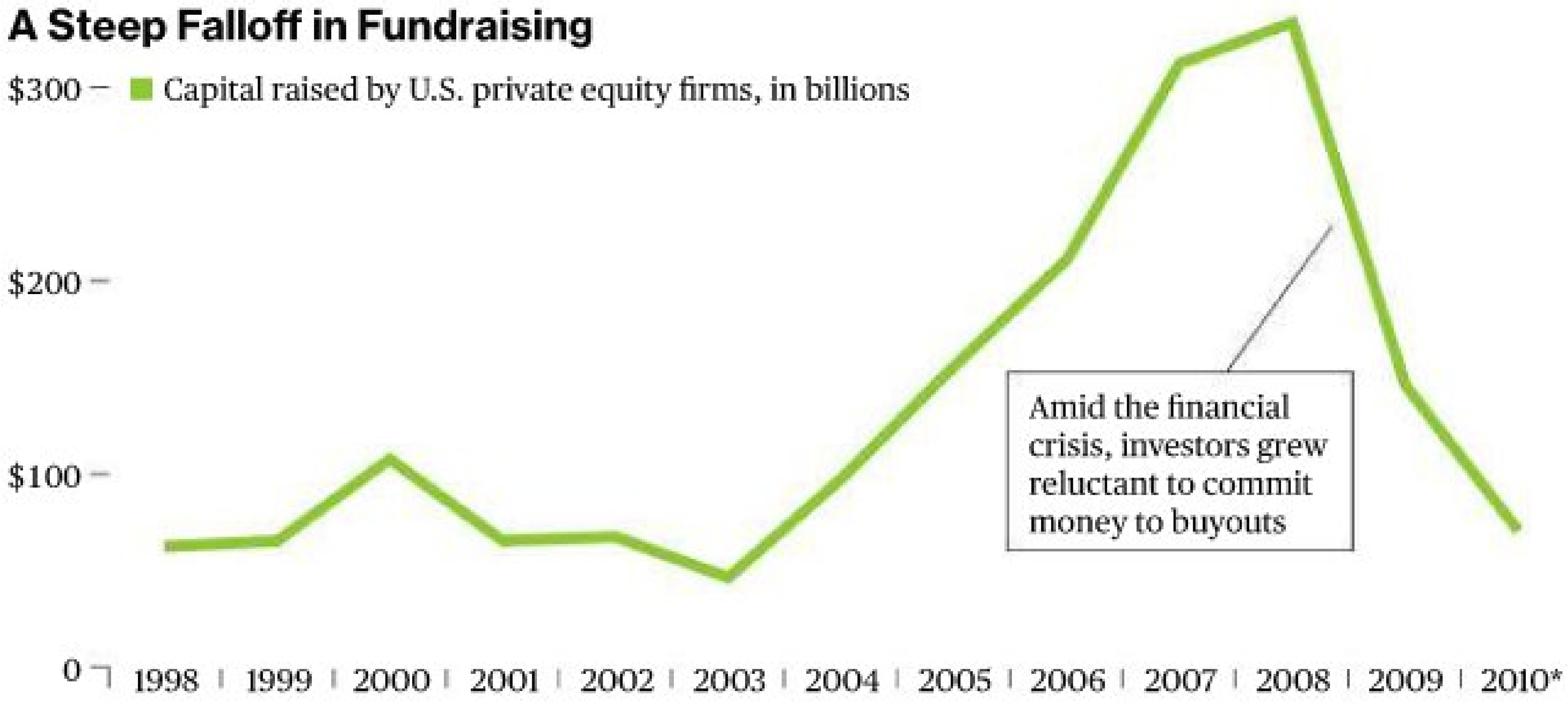
The firm has reentered a busi-

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

A Steep Falloff in Fundraising



DATA: PITCHBOOK DATA, *AS OF SEPT. 30

ness it abandoned only two years ago. In mid-December, Carlyle bought a 55 percent stake in **Claren Road Asset Management**, a $4.5 billion hedge fund. The firm has also hired several high-level bankers, including Mitch Petrick, **Morgan Stanley**'s former sales and trading chief, to help raise funds and move into new markets.

The burst of activity comes as Carlyle, based in Washington, D.C., considers a public offering, a move it has contemplated since at least June 2007, when Blackstone began trading on the New York Stock Exchange. It tabled the plans soon after, when debt markets froze. Carlyle instead sold a 7.5 percent stake to **Mubadala Development**, an arm of the Abu Dhabi government, for $1.35 billion in September 2007. KKR, which also weighed going public before the crisis, later merged with an affiliate listed in Europe and moved its stock to the New York exchange in July of this year.

Until recently, Conway was not convinced that Carlyle needed to go public. "In the past, if I had concluded we were at a significant disadvantage to Blackstone and KKR because they were public and we weren't, then I would've been the first one to go public," he says. He altered his view because the wealthy individuals and institutions that traditionally backed private equity are increasingly reluctant to commit fresh capital. Carlyle says it has raised $3.7 billion in 2010. That's up from $1 billion last year but nowhere near the $20 billion it raised in 2008. "There will be significant advantages to having a lot more capital," says Conway, who oversees the firm's investments. "Investors are reducing commitments to funds and making economic terms much less attractive."

Carlyle, launched with $5 million in seed capital, now manages $98 billion in 78 funds with holdings in 19 countries. It plans to file IPO papers late in 2011, according to people with knowledge of the matter, who say that the stock sale may not occur until the following year. "Carlyle is exploring whether a public filing would strengthen our firm and benefit our investors," says Rubenstein, who adds that no decision has been made.

An IPO would allow the founders to sell a portion of their ownership interests, and provide money the firm would use to invest in its funds and continue to expand. It would also bring changes. Carlyle would lose the luxury of keeping key financial information to itself. "Prospective public investors need to understand what they're buying and how it's priced, which requires a great deal of disclosure and explanation," says Antoine Drean, founder of **Triago**, a company that finds investors for buyout funds. "A private firm has the benefit of focusing on investing and keeping its competitors in the dark."

Carlyle also would have to clarify its leadership structure. Today, Conway leads deals; Rubenstein, 61, the firm's most public figure, is chief fundraiser; and D'Aniello, 64, oversees operations. "When collegial leadership has been tried before, it has not lasted long," says Jeffrey A. Sonnenfeld, associate dean of the Yale School of Management. "The pressures for accountability and transparency in a public company will demand a crisper chain of command."

Carlyle's competitors have taken differing approaches to leadership. Blackstone co-founder Stephen A. Schwarzman hired an outsider to run the company before it went public: Hamilton E. ("Tony") James, former chairman of global investment banking and private equity at Credit Suisse Group. When KKR listed shares in New York, it kept co-founders Henry R. Kravis and George R. Roberts as co-CEOs.

Finally, going public means being answerable to shareholders. Blackstone stock has lost 55 percent of its value since it debuted just before the financial crisis. KKR's stock has gained 26 percent since it started trading in New York six months ago.

Whether it goes public or remains private, Carlyle faces a period of reduced returns, Conway predicts. "Private equity rates of return have declined," he says. "We are still trying to earn 20 percent gross, but it's tough to do. We've modeled a 20 percent return on our most recent deals, but I'm absolutely certain that the model won't happen." —*Cristina Alesci*

***The bottom line** With the economy recovering, Carlyle is making more investments and branching into new areas as it considers going public.*

Regulation

An International Spat Over Bank Bookkeeping



FROM LEFT: FRED R. CONRAD/THE NEW YORK TIMES/REDUX; DANIEL ACKER/BLOOMBERG

▶ Debating the best way to value trillions in financial assets

▶ With "global corporations ... you want one accounting standard"

Efforts to establish a unified global accounting standard are being held up by a dispute between U.S. and international groups over how banks should value their assets. The U.S. Financial Accounting Standards Board (FASB) has proposed expanding the use of fair-value accounting–carrying assets

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags



Larry Fink, quiet colossus page 60 ▶

at their current market value—to loans and deposits as well as securities. The London-based International Accounting Standards Board (IASB) advocates allowing banks to carry assets at their original value as long as they are holding them for the long term, rather than for trading purposes.

While accounting rules affect all publicly traded companies, the question of how to value financial instruments is particularly important to banks, determining how trillions of dollars of assets are marked on their balance sheets and how much capital they will have to hold to meet new rules agreed to in September by the Basel Committee on Banking Supervision. According to Jason Goldberg, an analyst at Barclays, FASB's proposal could cause 26 of the largest U.S. banks to write down the value of about $4 trillion of loans on their books by $138 billion.

Former Federal Reserve Chairman Paul A. Volcker (opposite) first introduced the idea of accounting convergence in 2001 as head of the group that oversees IASB. "When you have global corporations operating around the world and analysts looking at them from around the world, you want one accounting standard," he says. FASB argues that forcing banks to reflect the market's take on what their assets are worth would provide the clearest view of their financial condition. That stance is backed by the CFA Institute, an international association of financial analysts. "It will help investors see the true picture," says Sandra J. Peters, head of the institute's financial reporting group.

Some opponents of FASB's approach contend that marking all assets to market doesn't make sense because it can be difficult to establish accurate values for some assets, especially during times of stress in the system. "You can't have everything at fair value," says Volcker. "I'm not in favor of fair-valuing bank loans because we don't know their fair value anyway."

A September survey of 1,000 investors by the CFA Institute found 71 percent favoring fair-value accounting for loans. A June survey of institutional investors by PricewaterhouseCoopers came to the opposite conclusion: A majority of respondents supported IASB's original-cost accounting for loans held for the long term.

Differences over fair-value accounting affect calculations of how much capital banks need to hold as a cushion against losses. Without a uniform standard for valuing assets, a U.S. bank and a European bank with identical loans could end up being required to hold different amounts of capital.

Members of the two accounting bodies have met monthly, and sometimes weekly, since 2006, when they agreed to work toward unifying standards. Most disagreements are close to being resolved, according to people with knowledge of the discussions. If the two sides cannot find a middle ground on financial instruments and are unable to agree on unified standards, the U.S. Securities and Exchange Commission will have to decide whether to allow U.S. companies the option of using IASB's standards. The SEC has said it will rule on that by the end of next year. —*Yalman Onaran*

The bottom line *A dispute over applying fair-value accounting to financial assets is holding up a global accounting agreement.*

12

BILLION DOLLARS

The profit for taxpayers on the government rescue of Citigroup, after the Treasury sold its remaining stock in the bank in early December.

DATA: TREASURY DEPT.

Stock Market

The Year's Top Investors Are Bullish on 2011

▶ **Leading fund managers anticipate modest growth, more jobs**

▶ **"We ... expect to see good cash flow and earnings at most companies"**

Four of the top-performing fund managers of 2010 have a cautiously optimistic outlook for the year ahead. "By the end of 2011, I hope the economy will be growing at a rate of between 3 percent and 4 percent or more," says Jerome Dodson, who oversees $4.5 billion as president of **Parnassus Investments** in San Francisco. That should lead to job growth, he says, "and if that does happen, the stock market will do very well."

Dodson's **Parnassus Small Cap Fund** has returned 29 percent this year through Dec. 7, compared with 9.7 percent for the Standard and Poor's 500-stock index and ranks in the 95th percentile of its peer group. Among the stocks he owns are **Finisar**, a maker of fiber-optic networking equipment, and **Administaff**, a human-resources services provider. "Over the next 18 months, I expect interest rates to move higher and employment to increase," lifting shares of Administaff, says Dodson, whose fund has beaten 99 percent of similar funds over the past five years. "Networks need more investment to remain competitive, and Finisar provides a good product that phone companies will have to buy if they invest in their networks."

Walter Price's **Allianz RCM Technology Fund** has beaten 95 percent of its peers this year and returned 31 percent, boosted by a 51 percent rally in **Apple** and a 97 percent advance in business-software supplier **Salesforce.com**. "Our view is that we will continue to see a recovery in the economy that is tepid, with growth around 3 percent," Price says. "But we also expect to see good cash flow and earnings at most companies, and this scenario will continue to foster investment in technology."

Whitney George is the co-chief investment officer at **Royce** and manager of the $4.2 billion **Royce Low-Priced Stock Fund**, which is up

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

28 percent this year and is in the top 2 percent of its peer group for the past five years. "Once one looks past the employment numbers and the housing data, the whole world starts to look a whole lot brighter," he says. "A lower dollar helps that, but also demand from emerging markets and the rest of the world is driving manufacturing."

George has been acquiring **Allied Nevada Gold** shares throughout 2010. The shares have gained 85 percent this year, besting the 20 percent rise in a group of S&P 500 metal companies and beating the 27 percent climb in gold. "In the case of anything that is hard-asset-related, the prospects look very bright because of all of the stimulus money being created," George says. "That gets to wanting to own things that are finite because the dollar or euros or yen that we use to buy them with all seem somewhat infinite right now."

Thomas Galvin at **Columbia Management Investment Advisers** is among those who believe below-average valuations will keep the bull market intact during 2011. The S&P 500 traded for 15.3 times earnings as of Dec. 7, compared with an average of 16.4 since 1954, according to data compiled by Bloomberg. The multiple has declined from a high of 18.8 in March as profits increased faster than share prices.

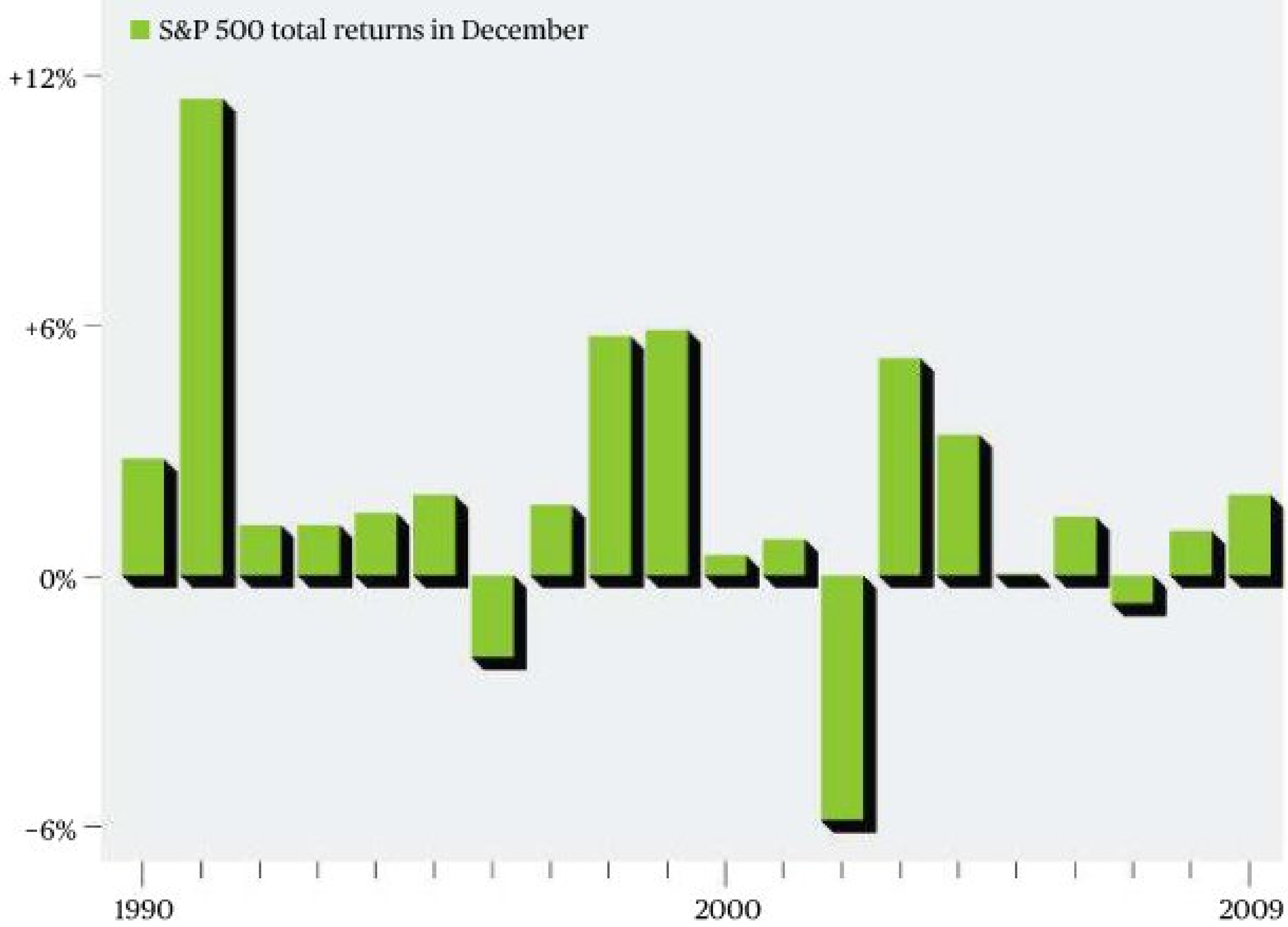
"We invest in high-quality, high-growth companies, and they are particularly well positioned today ... because they have the best balance sheets," says Galvin, whose $3.6 billion **Columbia Select Large Cap Growth Fund** ranks in the top 2 percent of its peer group this year. Its largest holding as of Sept. 30 was **Amazon.com**, which is up 31 percent this year. "You need to have strong balance sheets to invest in new developments and bring to market new products that are gaining market share even in an economy that's showing little lift." —*Whitney Kisling*

The bottom line *Top-performing fund managers see continuing gains for stocks in 2011 amid modest economic growth and increased employment.*

Stock Market

December Brings Gifts for Investors

The Standard and Poor's 500-stock index has returned 3.7 percent in the first five trading days of this month, putting it on track to follow its historical pattern: It has notched positive returns in 17 of the previous 20 Decembers.
—*David Wilson*



DATA: BLOOMBERG

Real Estate

For Harry Triguboff, the Housing Boom Lives On

▶ The Australian billionaire launches big projects as rivals retreat

▶ "In this business ... you have to understand how the money flows"

Australia, with one of the fastest-growing populations in the industrialized world, faces a shortage of 200,000 dwellings a year and a spirited debate over immigration. Billionaire property developer Harry Triguboff thinks the population, now 22 million, isn't growing fast enough: He'd be happy if it increased nearly fivefold by 2050. "I'd like to see 100 million, because I believe we will have many things to do here besides drilling holes and selling coal," Triguboff told Australian Broadcasting Corp. Television earlier this year.

Triguboff has no doubts about how best to accommodate the influx of new citizens: apartment developments. He's been building them since 1963, when most Australians dreamed of owning a house on a quarter-acre lot. "I looked around and I saw cottages everywhere," the 77-year-old says of his decision to start building. "I thought it was time they lived in apartments."

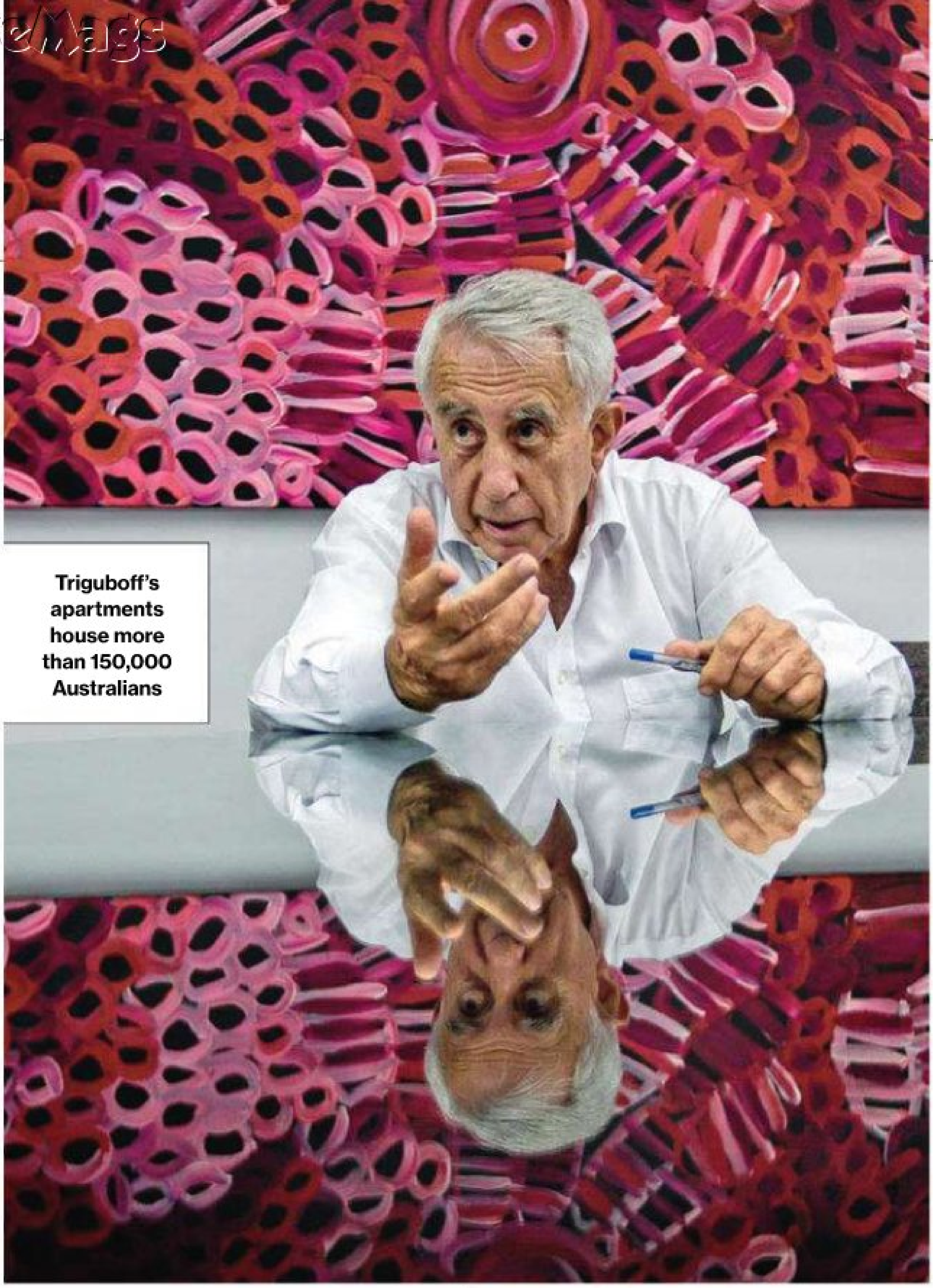
Since then, his closely held **Meriton** has grown to be Australia's biggest apartment developer, providing units for more than 150,000 people. In Sydney (population: 4.5 million), about three in every 100 people live in an apartment that Meriton built. Some local governments complain their suburbs have become overcrowded because of his developments.

Triguboff's strategy is simple: He puts up the tallest apartment buildings he can get approval for in suburbs where people can afford them. Demand isn't an issue. Australia is experiencing 1.8 percent annual population growth, vs. 1 percent in the U.S. and 0.1 percent in the European Union. Right now, the average home in Australia costs 6.8 times annual median household income, more than double the U.S. ratio of 2.9 times, according to Demographia's annual International Housing Affordability Survey. Home prices in eight

IAN WALDIE/BLOOMBERG

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags



Triguboff's apartments house more than 150,000 Australians

major cities surged 18.4 percent in the year ending June 30, according to the statistics bureau. "He delivers units affordably priced, close to the city center or near railway stations, and he does it on a bigger scale than anyone else," says Bob Carr, a personal friend who opposed some of Triguboff's building plans during his 1995 to 2005 stint as premier of New South Wales state. "He's giving people a choice."

Triguboff's quest to change the way Australians live is accelerating as Meriton embarks on some of its largest projects to date. They include the 77-story Infinity, Brisbane's tallest residential building, and the 2,000-unit Victoria Square apartment development in Zetland, a Sydney suburb. Where rivals such as **Australand** and **Stockland**, Australia's biggest diversified property company, have retreated as debt costs spiked during the financial crisis, Meriton has been able to take over a bigger slice of the apartment market by financing projects internally and by targeting a recession-resistant part of the market. "He correctly anticipated that demand for his kind of apartments, those affordable to the average home buyer, wouldn't slacken," says Aaron Gadiel, chief executive officer of the Urban Taskforce, a developers' industry group.

Triguboff is Australia's fifth-richest man, with a fortune of about A$4.2 billion ($4.14 billion) according to *BRW* magazine. He was born in 1933 to Russian Jews living in Dalian, China, and came to Australia with his family in 1948. He took a loan to buy his first block of land in 1963 in Tempe, an industrial suburb of Sydney under the flight path of the nation's busiest airport, and built a unit with eight apartments, learning the construction process on-site. Triguboff says he had enough assets to cover all Meriton's debt by the 1980s, and by about 2000 his company was debt-free and funding its own projects. Meriton declines to disclose its earnings.

Triguboff continues to draw criticism. A project involving a 16-building development in Pittwater, a suburb in Sydney's North Beaches' district, exceeds local height and density limits, says Mayor Harvey Rose. "Meriton's proposal is totally out of kilter with what Pittwater's about and will be opposed" by citizens and the city council, Rose says.

Triguboff, meanwhile, plans to keep building. "I've changed Sydney," he says. "It's my city, my people. I'm theirs. We belong to each other."
—*Nichola Saminather*

The bottom line *By staying debt-free and focusing on a reliable part of the market, Triguboff survived the financial crisis and continues to build.*

Personal Finance

The Hidden Hazards of Private Placements

▶ Deals meant for sophisticated investors are being sold to retirees

▶ "At worst, these investments turn out to be totally bogus"

Tracy Nye, 50, says he was forced out of early retirement last year after losing $1.5 million on privately placed investments–largely unregulated equity and debt securities not listed on an exchange. The Boise (Idaho) resident says he put $1.1 million into debt securities issued by **Medical Capital Holdings**, a financial firm, and $400,000 into **Shale Royalties**, an affiliate of energy company **Provident Royalties**. In July 2009, the U.S. Securities and Exchange Commission sued the firms for fraud, and most of the investments were wiped out.

Most private placements are offered to individuals under the SEC's Rule 506, which allows sales to "accredited investors"–those with net worth of $1 million or $200,000 in annual income–as well as institutions. The rule assumes that they have the sophistication to evaluate the investments. The problem is that the SEC established the requirements in 1982 and hasn't adjusted them for inflation. As a result, says Jennifer Johnson, a law professor at Lewis & Clark Law School in Portland, Ore., some investors, especially retirees who qualify, may not understand the risks. The financial overhaul bill enact-

➔54

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Charlie Rose talks to

David Einhorn



The Greenlight Capital boss explains why running a hedge fund is like solving puzzles and tells what's wrong with the U.S. economy—and its watchdogs

How does the global economy look to you right now?
The global economy, as I see it, is sort of in a period between two crises. We had a crisis in 2007-2008. Call it the private-sector banking crisis or the real estate bubble popping. But I think it's sort of laid the seeds for what will eventually turn out to be another crisis. There is a lot of unfinished business.

What sort of unfinished business?
Well, I think what we did in the last crisis in resolving it was—rather than go to the root of the crisis, tally up the damage, allot the losses, clean up, fix things, and move on—I feel like a lot of what we did was sort of sweep things under the rug and put short-term bandage fixes on things. And I think we managed to transfer a lot of the problems from the private sector to the public sector. I'm concerned that will eventually threaten the public sector as well.

In what way?
There were a lot of bad loans made, and we had an opportunity to recognize those losses, clean up the mess, set a base for future growth. Instead, what we decided to do was paper over the problems. We bailed out a lot of institutions. We bailed out a lot of people that had positioned themselves incorrectly. It's created a very, very large budget deficit. And it's created a monetary policy that is extremely easy, and it seems to be perpetuating itself in a way that I think is going to come to a tough spot.

What do you think of the Federal Reserve and quantitative easing?
I think essentially it's the wrong thing to do. I think it will be counterproductive. The goal of the quantitative easing right now is to raise the inflation rate. That's what they say. They think inflation is unacceptably low, and there is a great deal of concern about deflation. Let's talk about deflation for a moment.

Let's just say Apple fixes the components in the iPhone so that the battery lasts twice as long as before. Then Apple sells you that same phone with the same components with twice as good a battery for the same price. The way the economists look at that, they'll say that iPhone is 15 percent better than the old iPhone that you could have got at the same price—and that is deflation. What I don't understand is, why do we need to have a policy response to fight that behavior? Who is harmed by the fact that Apple can make an iPhone with twice the battery and sell it to you at the same price?

So you like Apple.
Very much. Apple is an interesting company because it has arguably one of the best brands in the country. It's growing at an enormous rate. And the growth effectively feeds on itself because when you buy one Apple product, you want to buy another because they're so nicely compatible. The result is that businesses, which for a generation essentially avoided Apple products, are adopting them now because of the demand from the employees. They come in with their iPhones and they say, "I want you to support this with my e-mail." That's a powerful growth story. With the introduction of the iPad, it's sort of reaching a critical mass right now.

What is it you like about what you do? Because you didn't set out to run hedge funds.
What I like is solving puzzles. I think that what you are dealing with here is incomplete information. You've got little bits of things. You have facts. You have analysis. You have numbers. You have people's motivations. And you try to put this together, decode the puzzle in a way that allows you to have a way better than average opportunity to do well. That's the best part of the business.

Did they take the right steps with financial regulatory reform?
I think what happened was Washington essentially said, "We will let Wall Street off the hook if Wall Street allows Washington off the hook." So I think that the reform doesn't go after any of the obvious issues identified in the crisis.

The political judgment seems to be that regulators didn't have the tools they needed.
I disagree. The problem was that the laws were not enforced. After Enron you had Sarbanes-Oxley, and there have been hardly any prosecutions under it.

You put in a tough anti-fraud law. The CEO has to sign there is no fraud. The CFO has to sign that the financial statements are correct. If not, there are going to be criminal consequences. ... But then they didn't enforce it. Once the bad guys figured out that the law wasn't being enforced, it effectively provided cover, because everybody said, "Look, we have the tough anti-fraud law. The fraud must have gone away." Ⓑ



Watch Charlie Rose on Bloomberg TV weeknights at 8 p.m. and 10 p.m.

JONATHAN FICKIES/BLOOMBERG

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

To see our commitment to biodiversity, just follow our tracks.

At APP, we take our responsibility as stewards of the environment seriously. We support programs that preserve 261,930 acres in the Senepis Tiger Sanctuary, 24,710 acres spanning the Taman Raja Nature Preserve, 425,019 acres in the Giam Siak Kecil Biosphere Reserve which is recognized by the UNESCO Man and the Biosphere Programme, and the Kutai Orangutan Programme. Because we understand that for our business to thrive, the world in which we operate must thrive as well.



APP CARES

www.asiapulppaper.com

To find out more please visit us at www.asiapulppaper.com
or email us at environment@app.co.id

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Markets&Finance

ed in July directs the SEC to exclude primary residences from the net worth calculation and to study the accredited investor standards.

Private placements allow companies to raise money without going through the extensive financial disclosure required by a public offering. Neither the SEC nor state regulators routinely review them. Most offerings aren't fraudulent and can be lucrative for appropriate investors, says Jay Turo, chief executive officer of **Growthink Securities**, which helps private companies raise capital.

Still, the lack of information can put investors at a disadvantage, says Manning Warren, a law professor at the University of Louisville's Brandeis School of Law. "At best they don't get enough disclosure to understand the risks involved, and at worst, these investments turn out to be totally bogus," he says. The Financial Industry Regulatory Authority, which oversees brokers and their firms, says complaints about private placements have jumped 35 percent so far this year on top of a more than 50 percent increase in 2009.

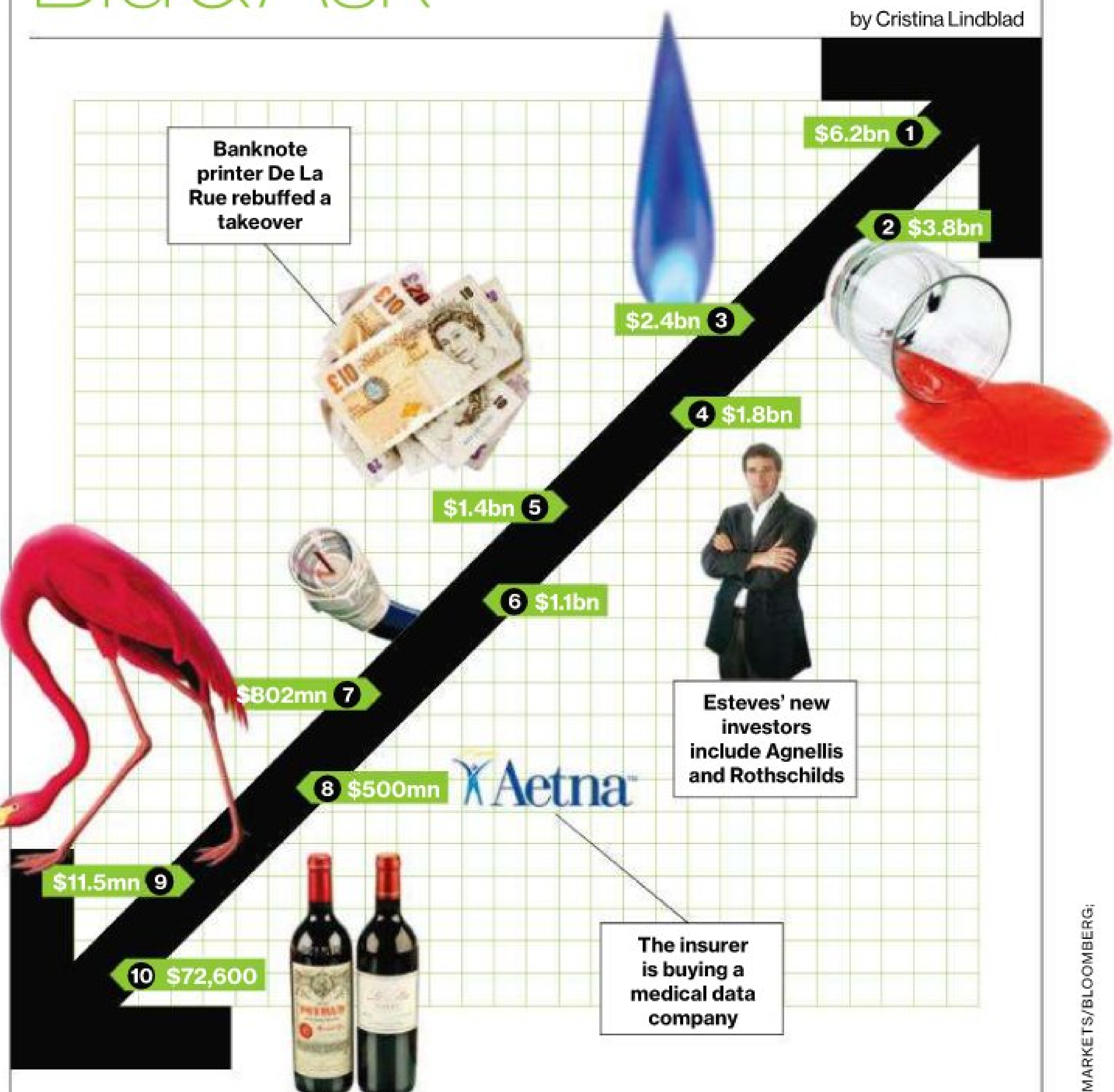
Investors lost more than $1 billion by purchasing private placement securities issued by Medical Capital, which offered financing to health-care providers awaiting payment of bills, and about $485 million from Provident Royalties, an oil and gas investment firm, according to the SEC's estimates. The SEC said the firms made misrepresentations and misappropriated money. Both companies are in receivership and the cases are pending.

Nye, the Idaho investor, says that brokers at **Jackson McClenny Investments**, the firm that sold him Medical Capital and Shale Royalties, were clear about the illiquidity of the investments without emphasizing the risks involved. Formerly in the construction business, he's now operating a restaurant that sells smoothies and sandwiches instead of enjoying his early retirement. The phone number listed for Jackson McClenny in Boise has been disconnected, and the firm doesn't appear in Finra's BrokerCheck, an online database.
—*Alexis Leondis*

The bottom line *Some retirees who qualify as accredited investors based on their assets may lack the expertise to evaluate private placements.*

Bid & Ask

by Cristina Lindblad



1 To help pay down debt, **Electricité de France** sold its stake in German utility EnBW to the state of Baden-Württemberg for $6.2 billion.

2 **PepsiCo** is buying control of Russia's Wimm-Bill-Dann Dairy and Juice for $3.8 billion in a bid to keep up with Coca-Cola's gains in that country.

3 In the largest transaction among U.S. gas utilities this year, Atlanta's **AGL Resources** offered $2.4 billion in cash and stock for Illinois' Nicor.

4 **BTG Pactual**, the Brazilian investment bank controlled by billionaire André Esteves, sold a $1.8 billion stake to a group of investors that includes the Rothschild and Agnelli families, U.S. investment firm J.C. Flowers, and sovereign wealth funds from China, Singapore, and Abu Dhabi.

5 **De La Rue**, the world's top printer of banknotes, rejected a $1.4 billion takeover approach from rival François-Charles Oberthur Fiduciaire.

6 Russia's largest retailer, **X5 Retail Group**, is acquiring discounter Kopeyka for $1.1 billion. Kopeyka had previously been in talks with Wal-Mart Stores.

7 John C. Malone's **Liberty Global** paid $802 million for Polish cable-TV operator Aster, its second cable acquisition in the country.

8 In the latest deal spurred by health-care reform in the U.S., insurer **Aetna** is paying $500 million for Medicity, which sells technology that helps hospitals and physicians exchange medical data.


9 A copy of **John James Audubon's** illustrated *Birds of America* fetched $11.5 million in London, a record for a printed book at auction.

10 Bordeaux wines from the prized 2000 vintage fetched top prices at a Sotheby's auction in New York, including $72,600 for a case of Pétrus. All of the wines carried tamperproof traceability seals courtesy of seller **BWB Group**.

CLOCKWISE FROM TOP: OCEAN/CORBIS; DORLING KINDERSLEY/GETTY IMAGES; CLAUDIO EDINGER/BLOOMBERG MARKETS/BLOOMBERG; ZACHYS WINE AUCTIONS, 2006/BLOOMBERG; SOTHEBY'S; SCOTT WEICHERT/GETTY IMAGES; REPPANS/ALAMY

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags



StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

81%

of energy experts think smart grid technology is important for creating a cleaner, stronger system of the future.

Energy

Pressures such as environmental concerns and resource constraints are pushing the energy industry to respond.

Energy professionals increasingly believe that electricity will need to come from cleaner, more renewable sources A more intelligent, flexible and agile electricity system that generates, transmits and distributes power efficiently and reliably is seen as key. Smart grid technology is one of the key energy initiatives among energy industry stakeholders, who believe it will play an important role in the way electricity is produced, supplied and consumed in future.

Bloomberg Businessweek RESEARCH SERVICES

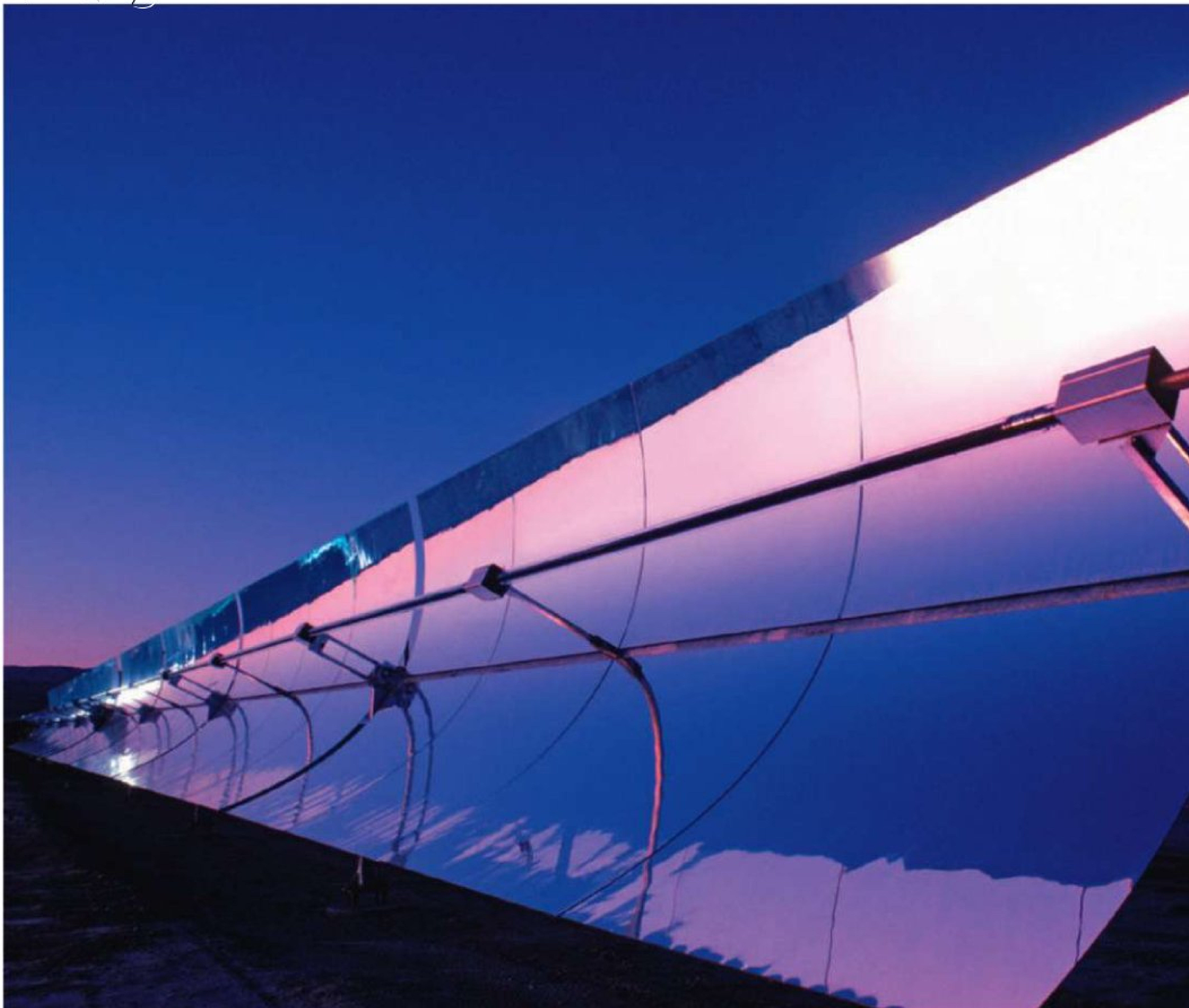
2010 ENERGY SURVEY

Produced by Bloomberg Businessweek Research Services in partnership with ABB.

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags



Connect renewable power to the grid?

Electricity generated by water, sun and wind is most abundant in remote areas like mountains, deserts or far out at sea. ABB's leading power and automation technologies help renewable power reach about 70 million people by integrating it into electrical grids, sometimes over vast distances. Our effort to harness renewable energy is making power networks smarter, and helping to protect the environment and fight climate change. **www.abb.com/betterworld**

Naturally.

Power and productivity
for a better world™

ABB

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

89%

of energy professionals believe government incentives trump markets in driving energy efficiency uptake by consumers.

Energy

Smart grid solutions facilitate the use of renewable energy and can help reduce energy demand, making them an increasingly attractive opportunity.

So much so that energy industry experts are stepping up calls for governments around the world to provide incentives to drive the adoption of energy efficiency and renewable energy. Stronger policies that are most favored by industry stakeholders are those that focus first on improving and incentivizing smart grid technology and then funding energy efficiency measures and setting minimum energy efficiency standards. Taken together, making efficiency a valued resource means applying the resources of government to prime the energy efficiency pump.

StoreMags - Free Magazines Download in True PDF format

Bloomberg Businessweek RESEARCH SERVICES

2010 ENERGY SURVEY

Produced by Bloomberg Businessweek Research Services in partnership with ABB.

Release: StoreMags & Fantamag. Magazines for All

StoreMags



Cities that consume 30% less energy?

As a leading producer of energy-efficient solutions, ABB helps deliver major power savings, without compromising performance. Our lighting control systems can deliver power savings of up to 50 percent, and our building automation up to 60 percent. While everyone else is talking about energy prices, power shortages and climate change, ABB is doing something about it, right here, right now. **www.abb.com/betterworld**

Certainly.

Power and productivity
for a better world™

ABB

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags



StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags



The brain trust
Kapito, Wagner, and Fink

The Colossus of Wall Street

Bestride the bond and equity markets, counseling the Treasury and the Fed, BlackRock CEO Larry Fink is the most influential man you've never heard of

By Sheelah Kolhatkar and Sree Vidya Bhaktavatsalam
Photograph by Christopher Anderson

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

As chairman and chief executive officer of BlackRock, Larry Fink controls more money than Germany has GDP. BlackRock is the world's biggest asset management firm, a $3.45 trillion powerhouse that's the largest counterparty on Wall Street, on track to pay investment banks $1 billion in fees this year. It manages $1.4 trillion for state pension funds in New York, New Jersey, and California, among others, invests $240 billion for central banks and sovereign wealth funds such as the Abu Dhabi Investment Authority, and in the U.S. stock and bond markets, it's responsible for a massive amount of trading volume each day. BlackRock serves as the U.S. Treasury Dept.'s go-to source for private sector financial expertise and managed at least $150 billion in toxic assets on behalf of U.S. taxpayers after the 2008 bailouts of American International Group and Bear Stearns. While running the company is a team effort, Fink, 58, is BlackRock's brain, and BlackRock, increasingly, is Wall Street's.

"There's no bank, no sovereign wealth fund, no insurance company that's as large as BlackRock," says Ralph Schlosstein, a co-founder who left in 2007 and is now CEO of investment bank Evercore Partners. "BlackRock today is one of, if not the, most influential financial institutions in the world."

In light of all this, it's surprising how few people beyond Wall Street are familiar with Larry Fink and BlackRock. Founded in 1988 as a bond trading shop, BlackRock has somehow reached financial omnipotence while remaining out of the public eye, escaping the scorn, and the acclaim, so often heaped on the nation's premier investment bank, Goldman Sachs. Although BlackRock competes with Goldman's much smaller asset management unit, the two firms are fundamentally different because trading, not investing, makes up most of Goldman's business, and Goldman is known as a place where executives achieve mind-boggling wealth. BlackRock is focused on the less lucrative work of investing money for individuals and institutions such as pension plans, endowments, and foundations through mutual funds, exchange-traded funds, and separately managed accounts. It makes most of its money through old-fashioned management fees rather than by taking positions for itself. On Wall Street, where boring is suddenly better, Fink is the newly minted nerd king.

Still, there are two things that Goldman has, or used to have, that Fink and his BlackRock cofounders—Rob Kapito, 53, Susan Wagner, 48, and Charles Hallac, 46—covet: a prestigious brand and a permanent spot in the public consciousness.

On an October afternoon, recognition is very much on Fink's mind as he prepares to address his 8,900 worldwide employees in one of his quarterly "state of the state" pep talks. The atmosphere crackles inside the company's seventh-floor conference room in Manhattan, where an oval table and a wall of monitors show live footage of BlackRock offices around the world, giving the place the feel of the White House's situation room. One end of the table remains conspicuously empty until two young men in blue dress shirts sit down. "Dude," jokes a third, seated on a bench against the wall, "you realize Larry's gonna be sitting right there? Can you handle the pressure?" The two scramble into other chairs.

Moments later, Fink walks in with a slightly sheepish affect and takes his seat. "Good morning, everyone," he says, holding a single sheet of paper. "I'm not here to tell you we're perfect. We have problems, as all firms do." He talks about BlackRock's quarterly performance ("We grew by 9 percent"); the company's recent, slightly troubled integration of Barclays Global Investors, the U.K.-based money manager BlackRock bought for $15.2 billion in 2009 ("It's clear to me that we have a firm that's more cohesive than ever"); and the current share price ("I think the market is dead wrong in terms of where our stock is trading"). The rhetoric is hardly soaring, but Fink exudes confidence. He tries to excite his audience with descriptions of the firm's success and power and the need for all employees to try harder. "We have a giant responsibility," he says. "We have to not just focus on $3.4 trillion of assets being managed, but who we're managing for—maybe it's your parents, maybe it's a school teacher or a fireman.... We are connected to the entire world in what we do."

Finally, Fink returns to one of his favorite themes, an issue that drives him and keeps him awake at night: the chronic underappreciation of his company. "We

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

need to continue to build the BlackRock brand," he says. "And, hopefully someday, your families will know what BlackRock is."

As the financial crisis turned the Wall Street power structure on its head, BlackRock offered something valuable—the ability to analyze risk, especially bond risk, and mortgage bond risk in particular. The company had been collecting data on mortgages since 1994, when the market was much smaller than it is today. Suddenly, the possession of all this information made BlackRock important beyond its size. As bank executives and government officials woke up to the horror of toxic mortgage debt hiding in balance sheets around the world, BlackRock was one of the few entities that could actually figure out what the stuff was worth—and could do so without presenting a competitive threat. "Expertise would have been irrelevant without the trust," says Terrence Keeley, a former managing director of UBS, which hired BlackRock to analyze a $22 billion portfolio of debt that it later sold to the firm. The company helped the Treasury Dept. and the Federal Reserve with the government-backed buyout of Bear Stearns by JPMorgan Chase as well the bailouts of AIG, Citigroup, Fannie Mae, and Freddie Mac. BlackRock was also lucky, because asset management firms have barely been affected by the new post-crisis regulations that are causing terror across boardrooms.

While it made its share of mistakes before and after the crisis—including significant losses in funds that invest in real estate and mortgage-backed securities—the company has only gained power and prestige since 2007 and this year is expected to earn almost $2 billion on $4.7 billion of revenue. Last year, Fink was one of the highest-paid chief executives on post-bailout Wall Street, with $15.9 million in compensation, according to data from the Securities and Exchange Commission, while Goldman CEO Lloyd Blankfein got $862,657, down from $40.95 million in 2008.

One of the ways BlackRock became so huge—swamping its nearest competitors, State Street and Pimco—was by swallowing other companies. In 2004 it purchased State Street Research & Management (no relation to State Street) for $375 million from MetLife; two years later it acquired Merrill Lynch's investment unit for $9 billion, bringing its assets above the $1 trillion mark. In February, while BlackRock was digesting Barclays, it filed paperwork with the SEC reporting stakes of more than 5 percent in 1,800 companies, temporarily paralyzing the SEC's electronic database.

As it expands its reach into equity and bond markets around the world, the company wants to introduce its own trading platform, which would help BlackRock match buy and sell orders to save money for clients, reducing its dependence on Wall Street brokers and cutting the fees it sends to them each year. BlackRock has also started a capital markets unit to help its customers invest directly in corporate debt offerings, which will allow it to negotiate better terms. "With $3 trillion-plus in assets, it's safe to assume BlackRock can pull it off," says Marc Irizarry, an analyst at Goldman Sachs.

Things haven't been all daffodils, though, and recently BlackRock has been in the headlines for the wrong reasons: On Dec. 7, Massachusetts' state pension fund pulled $1 billion from BlackRock, citing dissatisfaction with its performance and the departure of key executives. Investors withdrew $64 billion from the company's funds in the first half of this year, and BlackRock's shares have plummeted 26 percent.

There are those who say BlackRock, as with Goldman Sachs before it, has too much sway over the financial system. Others suggest that its ascent is part of an inevitable reshaping of Wall Street. "The balance of power has shifted generally to buyers as opposed to sellers, and people like BlackRock, who control large investment funds, will find themselves in a position of power," says Peter Solomon, a former vice-chairman of Lehman Brothers who now runs his own investment bank, Peter J. Solomon Co. "What they do with that power would be worth noting. You see the White House calling them, and I can guarantee that they're not totally passive with their influence."

When BlackRock rearranged its offices earlier this year, expanding onto several additional floors on East 52nd Street, Fink decided not to radically re-


Kapito (left), Fink (center), and Schlosstein (right) in 1990

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags

decorate his new space. "Same furniture, exactly the same maker," he says, gesturing around the room and chuckling. No $2 million renovation? "No. I don't believe in that."

Perched on a cream-colored armchair in his office, Fink is a disarming presence. Leaning forward with elbows on knees, his face reacting to questions with cartoonishly exaggerated expressions, he's less like a master of the universe than a master of the water cooler—albeit one who discourses on unemployment rates and the intricacies of quantitative easing. Despite his protestations, the surroundings are hardly shabby. In addition to the L-shaped desk sprinkled with family photos (he and his wife, Lori, have three children and live primarily in Manhattan, although they also own homes in North Salem, N.Y., an hour north of the city, and Aspen). There are potted orchids, shelves of books displayed like trophies, and paintings from Fink's personal collection of American folk art on the walls.

Fink brushes off the Goldman Sachs comparison—"They're in such a different business," he says. "I don't want to be in that business." But the recent history and fates of the two companies are inextricable. BlackRock raised $126 million in an initial public offering, to little fanfare, in September 1999—the same year Goldman staged its own splashy $3.7 billion IPO. Eleven years later, BlackRock's stock is up 1,110 percent, compared with a 200 percent increase in Goldman's shares. Fink is a warmly received guest of politicians and policymakers in Washington, some of whom wouldn't risk being caught chumming around with Blankfein.

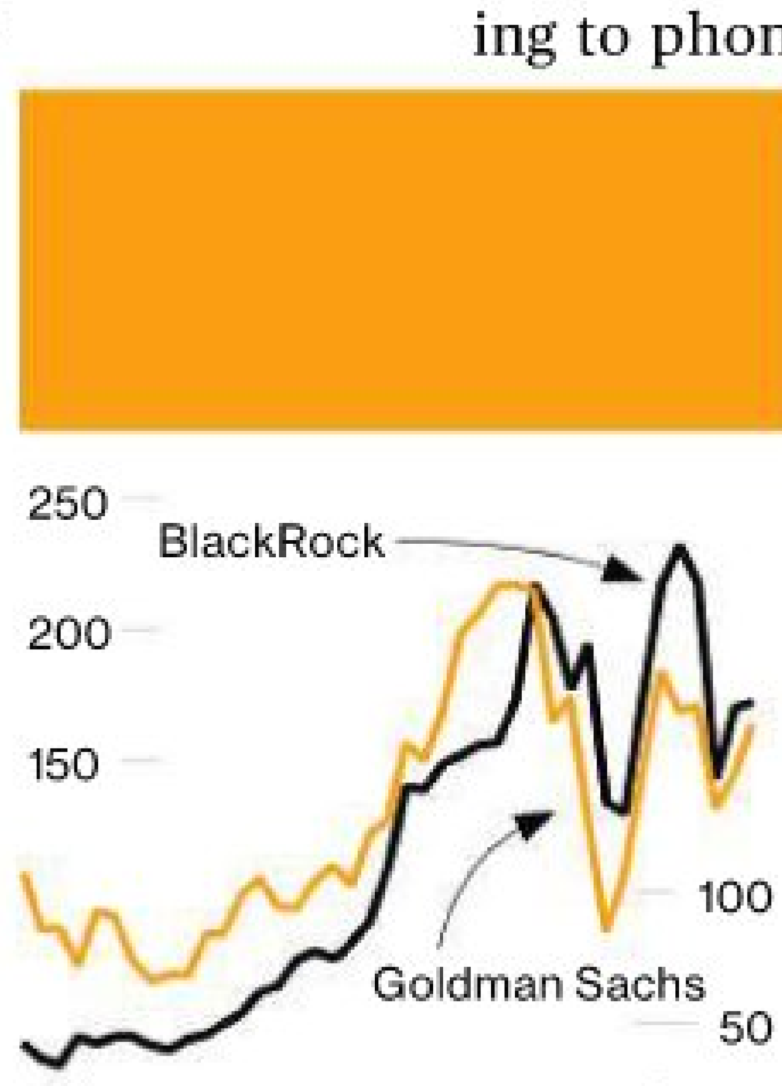
"I think in some cases, people could be a little frightened of us," Fink says. "Goldman Sachs is a great partner of BlackRock's, and yet we compete bitterly against each other, too, in the asset management side. We use them as a counterparty, and we do a lot of trades with them." But, he says, "we are very different. This is who we want to be."

Proprietary trading helped banks rake in enormous gains during the stock market boom that peaked in October 2007. Fink believes that BlackRock shouldn't use its balance sheet for anything but co-investments alongside investors, a distinctly un-Goldman-like strategy. He says he rejects the idea of expanding BlackRock's reach by moving closer to an investment bank or securities firm approach—no need to be a coyote when you're already a colossus. "Wall Street's about velocity of money," Fink says. "And as velocity of money became more and more important, relationships became less and less important, and as Wall Street started to realize they could make more money by 'balance sheeting' things, it became less client-centric.... I wanted to do something different, and that was being client-centric." Every Wall Street firm insists that its customers come first—it is the first of Goldman Sachs' "Business Principles"—but at BlackRock this is built into its structure as a money manager for client investors.

One consequence of BlackRock's prominence is that, like Goldman Sachs, the firm has to work to avoid the perception of arrogance. As implementation of the financial reform bill is being worked out by various regulatory agencies in Washington, BlackRock, in what seems like an audacious move to some, has lobbied to be excluded from the definition of a "systemically important" firm to avoid more stringent regulatory oversight, arguing that it does not have balance sheet risk. "When you're big enough, you do pose a systemic risk. Like Fannie and Freddie, their portfolios are so large, any move they make moves the market," says Janet Tavakoli, a structured finance consultant and frequent critic of the company. "BlackRock can't have it all ways, and so far they've escaped without so much as a whisper about their reputation, which right now isn't looking too good from where I sit."

BlackRock has also proven that it won't be shy about confronting the world's biggest financial institutions to defend its turf. In October the company was part of a group including Pimco and the New York Federal Reserve that sent a letter to Bank of America, then BlackRock's biggest shareholder, seeking to force the bank to repurchase soured mortgages packaged by its Countrywide Financial unit into $47 billion of bonds. Bank of America reduced its stake in BlackRock from 34 percent to about 7.1 percent as federal regulators pushed it to improve its balance sheet. Fink refuses to discuss the demand letter, except to say that his firm has a duty to ensure that the securities purchased on behalf of BlackRock's clients are what the bank claimed they were.

None of the controversy surrounding the company prevented it from effectively becoming an adjunct of the U.S. government. As the financial system creaked under the weight of toxic mortgage debt in 2007, Fink and other BlackRock executives became regular sounding boards for Timothy Geithner, then chairman of the Federal Reserve Bank of New York, and Federal Reserve Chairman Ben Bernanke. (Both have remained in regular contact with Fink, according to phone records made public by the agencies.)



A Tale of Two Giants

BlackRock vs. Goldman Sachs: 10-year stock price
Data: Bloomberg

BlackRock's first assignment came as the subprime mortgage collapse triggered withdrawals from a money-market fund managed by the Florida Local Government Investment Pool. BlackRock was chosen over JPMorganChase, Goldman Sachs, and Barclays to salvage the fund by separating the good assets from those that couldn't be sold, for a $125,000 fee.

As Bear Stearns fell apart in March 2008, JPMorgan Chase CEO Jamie Dimon had a BlackRock team of 50 analysts work through the weekend to evaluate Bear Stearns' most illiquid assets. At the end of the weekend, Geithner called Fink to ask him to manage $30 billion in bad mortgage debt that had been carved out from Bear Stearns' books before its healthier parts were sold to JPMorgan. BlackRock played a

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All



The new logistics is about speed. UPS delivers earlier to more countries from the U.S. than anyone. In fact, UPS delivers more packages on-time and overnight in the U.S. than anyone. You can choose from a range of delivery options to meet the requirements of your business and the needs of your customers. Keeping your promises is not an option; it's a business advantage. Put the new logistics to work for you. **thenewlogistics.com**

ups®

WE LOGISTICS™

StoreMags
StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags



Kapito (left), Wagner (fourth from left), and Fink (second from right) on the day BlackRock went public in 1999

similar role with AIG, Fannie Mae, and Freddie Mac.

The fees that BlackRock earns from these assignments were disclosed last year after Senator Chuck Grassley (R-Iowa) and others expressed outrage over the lack of competitive bidding in the awarding of the government contracts and the potential for conflicts of interest. BlackRock is set to earn at least $120 million from the Fed over a three-year period. In July, Grassley reiterated questions about the dual role of BlackRock in advising the Federal Reserve and being one of the eight investment firms selected to buy assets under the Public-Private Investment Program. In a letter to Neil Barofsky, the special inspector general of the Troubled Asset Relief Program, Grassley asked the auditor about any findings the agency has made about potential conflicts of interest.

While BlackRock was advising the government on the value of some toxic assets, it and other firms such as Pimco were buying similar securities through their investment units. The company also drew $3.8 billion from the Fed's Term Asset-Backed Securities Loan Facility, or TALF. The firm has repaid all but $221 million of the funds to the government. (BlackRock says it made use of the program, but only to give its fund clients the investment opportunity. It also says that its investment funds don't have access to information that isn't publicly available and that it has procedures in place to wall off its advisory and fund units.)

"If it were a calmer period, would there have been a better process? Maybe," says Fink. "We were in these moments where four hours made a difference. I would like those people who criticize to have been there to witness what was going on at that time." He adds: "This could be some of my hubris, but I believe we might have been the only firm that could have done it."

"This could be some of my hubris," Fink says. "But I believe we might have been the only firm that could have done it"

BlackRock was born in 1988 out of a concept that's obvious now but was somewhat novel at the time: Risk management is crucial. "I think we caught an idea before people recognized that it was an important idea," Fink says. "We believe that fully understanding what you're investing in is very important." Asked where this lightning bolt came from, Fink laughs and says: "Losing money."

Fink grew up in Van Nuys, Calif., the son of a shoe salesman and an English professor. He attended the University of California, Los Angeles business school before joining First Boston (now part of Credit Suisse), where he traded bonds in the 1980s. His work slicing and pooling mortgage bonds, then selling them to investors as securities called collateralized mortgage obligations, has today mushroomed into a $2 trillion market. Fink's department became the most profitable at First Boston, and at age 31 he was made the youngest-ever managing director at the firm, as well as the youngest member of its executive committee. His rise ended abruptly in 1986, shortly after his 33rd birthday. During the first quarter, an investment he'd made had resulted in a $100 million profit; the following quarter, though, his division lost more than $100 million as interest rates fell unexpectedly. Fink says he became a pariah.

"I knew intellectually how much risk we were taking, but I didn't have the tools to truly understand it," he says. "We were loved when we made the hundred-plus million dollars the first quarter; they hated us when we lost $100 million. ... We should have been fired for making all the money and not understanding how we were making it! It was a big lesson, at 33 years old."

He left First Boston under a cloud less than two years later and started BlackRock with Schlosstein, a former Lehman trader. The firm began its life in the headquarters of its first financial backer, the Blackstone Group, which gave BlackRock a $5 million line of credit for a 40 percent stake. The fledgling firm's mission was obscure but simple: to help investors understand the risks in their bond portfolios. "In April of 1988, people would say, 'risk management for bonds?' They looked at us like we were crazy," says Wagner, who joined the firm at its inception and is now a BlackRock vice-chairman. "Today, that model has been validated."

The firm accumulated about $20 billion in assets by 1994, but while business was picking up, the relationship between BlackRock and Blackstone became tense. Fink had a falling out with Blackstone co-founder Stephen Schwarzman that same year over BlackRock's independence, resulting in the sale of BlackRock to PNC Financial Services Group of Pittsburgh for $240 million. The real breakthrough for the company came in 1995, when it helped General Electric value and dispose of a $10 billion portfolio of distressed mortgage securities, saving $1 billion for GE and establishing BlackRock's reputation. By 2000, Fink saw a chance to build out the firm's analytics into a separate business, called BlackRock Solutions. The unit offers a risk management system called Aladdin and now employs more than 800 people with degrees ranging from economics and engineering to mathematics and nuclear physics.

Aladdin can analyze stocks, bonds, and derivatives, though what makes it particularly valuable is the work it can do on mortgage-related bonds, the area that Fink helped develop in the 1980s. The system categorizes and assigns a value to each mortgage bond in an investor's portfolio based on location, Zip Code, and dozens of other criteria, says Hallac, a co-founder and the head of BlackRock Solutions, which accounts for about 5 percent of the firm's fees. On a green-and-white computer screen on his desk, he demonstrates what clients see when they log into the Aladdin system: the value

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags

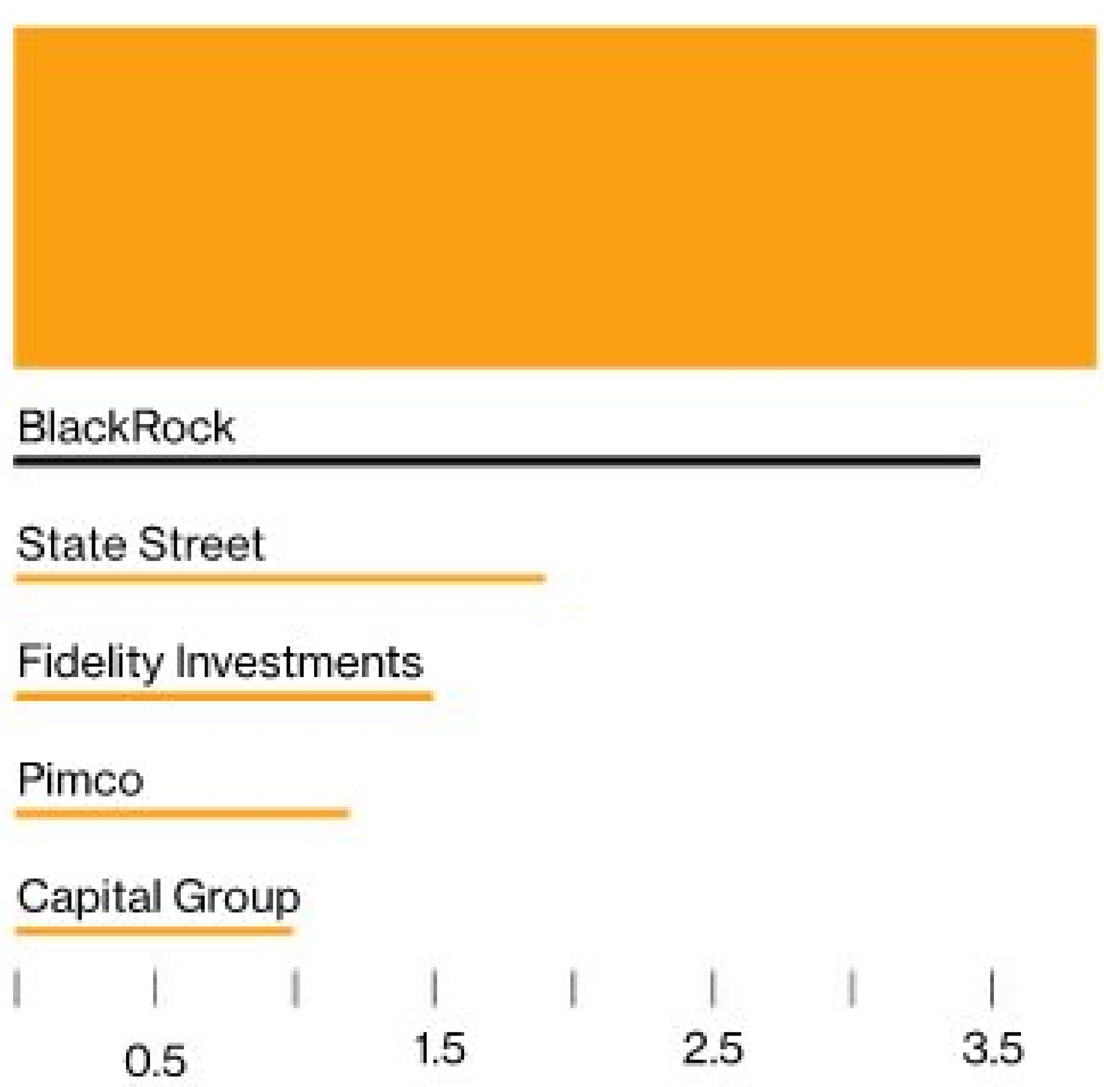
that BlackRock has assigned to each individual security they've invested in, while modeling the value of the security for scenarios such as a repeat of the 2008 credit crisis, a falling U.S. dollar, or the breakout of an Asian flu pandemic. As the financial crisis worked its way through the system, Aladdin was a big reason why BlackRock was summoned by governments and financial institutions around the world.

By 2008, BlackRock was in a fortunate position: It had started moving away from the riskiest bonds two years before and came through the worst market since the Great Depression without posting a loss, although not all of its investors fared as well. The firm managed to squeeze out a profit of $54 million in the last quarter of 2008, as the collapse of Lehman Brothers and the ensuing market paralysis shocked Wall Street. This put the company in a good position to pounce on Barclays, a deal that was hatched by Fink lieutenant Kapito at a Yankees game. Goldman Sachs, meanwhile, lost $2.1 billion in the last three months of 2008, its first-ever quarterly loss. The investment bank also accepted $10 billion in bailout funds from the U.S. government that year.

BlackRock isn't immune to outside forces. Investors in the preferred shares of its closed-end funds saw their investments frozen as the auction-rate market collapsed in 2008. Some distressed debt strategies, created before the market meltdown, sank millions of dollars into loans that continued to lose value as markets tanked. And for all its expertise in evaluating fixed-income assets, BlackRock's own long-term track record in the area has been mediocre. In the three years ended Sept. 30, funds representing only 55 percent of BlackRock's fixed-income assets had beaten their respective benchmarks.

"BlackRock had a bit of a stumble in their bond funds in 2008, as there was a failure to anticipate that the global unwind would take out everything except government bonds," says Eric Jacobson, a Morningstar fund analyst in Chicago. "I think the lesson they and many others learned is that ultimately, despite a good risk-management system, it's the quality of active management that will carry you to the next step."

Critics such as Tavakoli also argue that BlackRock's dismal performance as a manager of certain collateralized debt obligations (CDOs) during the height of the real estate bubble raises questions about whether the company should be trusted with massive amounts of government assets. According to Tavakoli's research, several deals worth billions overall that BlackRock put together went bust; problems in the mortgage market were already evident, and financial institutions were scrambling to keep the securitization money train running by executing deals that were sure to fail. "When I look at their track record with CDOs, I think there were gravely serious questions," she says. "They're too close to the problem to merit getting any no-bid [government] contracts."



The Rock Rules
Assets under management in trillions of dollars for the five largest asset managers
Data: Company reports

"There were gravely serious questions," says Tavakoli. "They're too close to the problem to merit getting any no-bid contracts"

In response, BlackRock says that, "given the magnitude of the Great Recession and the corresponding collapse in real estate markets, we are disappointed with the return experience of CDOs with real estate exposure." The company had about $9.6 billion in CDO assets as of Sept. 30 of this year. Fink says he thinks the government will end up making money on the toxic AIG and Bear Stearns assets BlackRock managed.

In one of the company's most public humiliations, it also lost money in Stuyvesant Town-Peter Cooper Village, a Manhattan apartment complex acquired by in 2006 by BlackRock's real estate unit and Tishman Speyer Properties. One of BlackRock's investors, the California state pension fund, lost $500 million on the deal, prompting Fink to personally apologize to CalPERS' board. "For the clients for whom we made mistakes, we're guilty," Fink says. "It still gnaws at me that we failed them."

Back in his office, Fink is less than dire about the future of the teachers and firefighters whose causes he likes to publicly champion. "I'm much more constructive than the consensus," he says, "I never felt the economy was going to have this V shape; I always talked about the swoosh economy. And that's what it is. It's still the Nike swoosh economy. At the end of the swoosh it goes up. It's just a longer swoosh part, and that's where we are."

How far he rides that swoosh is a question of increasing importance, and the subject of much speculation. Fink acknowledges that the time is coming when he won't run BlackRock anymore. He aspires to someday enter public service if the right opportunity presents itself, though he isn't specific about what that opportunity might be. As he ruminates on the future, he jumps up to fetch a blue binder from his bookshelf. "We do a 360 review of every leader," he says, opening the book. "This is really intense stuff."

He starts to read an anonymous comment contributed by another BlackRock executive: "Overall, I'd give Larry a 96 out of 100," he begins. Then, "I worry about Larry. I love that he's client focused, but one day he's going to keel over. In flying all around the world, he insists on taking commercial transportation. We should probably get him a plane." B

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags


At the Mauricedale ranch in South Africa, an endangered black rhino charges

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags



In Africa, hunters are paying $150,000 to kill an endangered black rhino. And that may save the species.

The Sacrifice

By Brendan Borrell
Photographs by James Oatway

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

In June 1996 a game rancher named John Hume paid about $200,000 for three pairs of endangered black rhinos from the wildlife department of the South African province of KwaZulu-Natal. Among them was a male who would come to be called "Number 65," and whose death would play a central role in the debate about conservation.

South Africa did not start the auctions because it had a surplus of the animals. Quite the opposite. Although the black rhinos had been reproducing, they were still critically endangered. Only about 1,200 remained within the country's borders. But black rhinos are massive animals, and with just under 7 percent of the country set aside in protected areas, conservationists and wildlife departments had run out of room to accommodate them.

Hume's 6,500-hectare ranch, Mauricedale, lies in the hot, scrubby veldt in northeastern South Africa. Hume, 68, made his fortune in taxis, hotels, and time-shares, and Mauricedale was his Xanadu, a retirement project of immense proportions. In the late 1990s he began buying up many of the neighboring farms and ranches, and his triangular estate would soon be boxed in on all sides by roads and sugar cane plantations. Hume also was rapidly becoming the largest private owner of white rhinos; there are currently 250 split between Mauricedale and another similar property. He also raises cape buffalo, roan and sable antelopes, hippos, giraffes, zebras, and ostriches.

When the black rhino bull arrived, Hume's farm manager–a burly Zimbabwean named Geoff York whose typical mode of dress is army boots and a pair of purple shorts–tranquilized him, clipped two notches in his left ear and two in the right, and gave him a number: 65.

With a horn worn down to 20 inches from rubbing it against rocks, Number 65 was not a beautiful bull. It wouldn't take long for him to cause trouble at Mauricedale. Very soon, Number 65 started fights with a young male, who died in November 2000 following a particularly nasty run-in. He chased the other bulls off to an area of the farm called Thanda Nani so he could have the females all to himself. For two years he mingled exclusively with Hume's cows, yet they never bore him a calf. He was no longer able to breed. "He dominated the farm," says York. "We knew he was a problem."

Hume was not the only one struggling with his black rhino bulls. As far back as 1992, the African Rhino Specialist Group of the International Union for the Conservation of Nature (IUCN) had discussed the "surplus male problem," says the group's longtime scientific officer, Richard Emslie. Females can raise only a single offspring every two to three years, but males can sire many. As in cattle ranching, population growth rates are highest when the number of bulls in a herd is limited. It was beginning to look as if, for the first time since they were added to Appendix I–the highest level of protection under the 1977 Convention on International Trade in Endangered Species (CITES)–a black rhino should be legally hunted and killed.

More conservationists, such as the World Wildlife Fund (WWF), are embracing the notion that legalized hunting–and the creation of a market for the right to shoot and harvest an animal–may help endangered species. The black rhino is a trophy for many hunters, who are willing to pay hundreds of thousands of dollars to shoot them. Such men travel to Africa from Russia, Japan, Spain, and Eastern Europe, but Americans dominate the market. Fred Leonard, who once had a Michigan business designing plastic parts for the auto industry, is a typical client. Despite two open-heart surgeries, Leonard has made 13 trips to the continent to bag leopard, lion, elephant, buffalo, and various antelope. He's got more than 75 dead animals–all of them legal–displayed in a special room in his house outside of Grand Rapids, Mich. Leonard bemoans the common confusion of hunters with poachers. The difference, he says, is that hunters care about the environment–and the law. "Most hunters are decent people," he says.

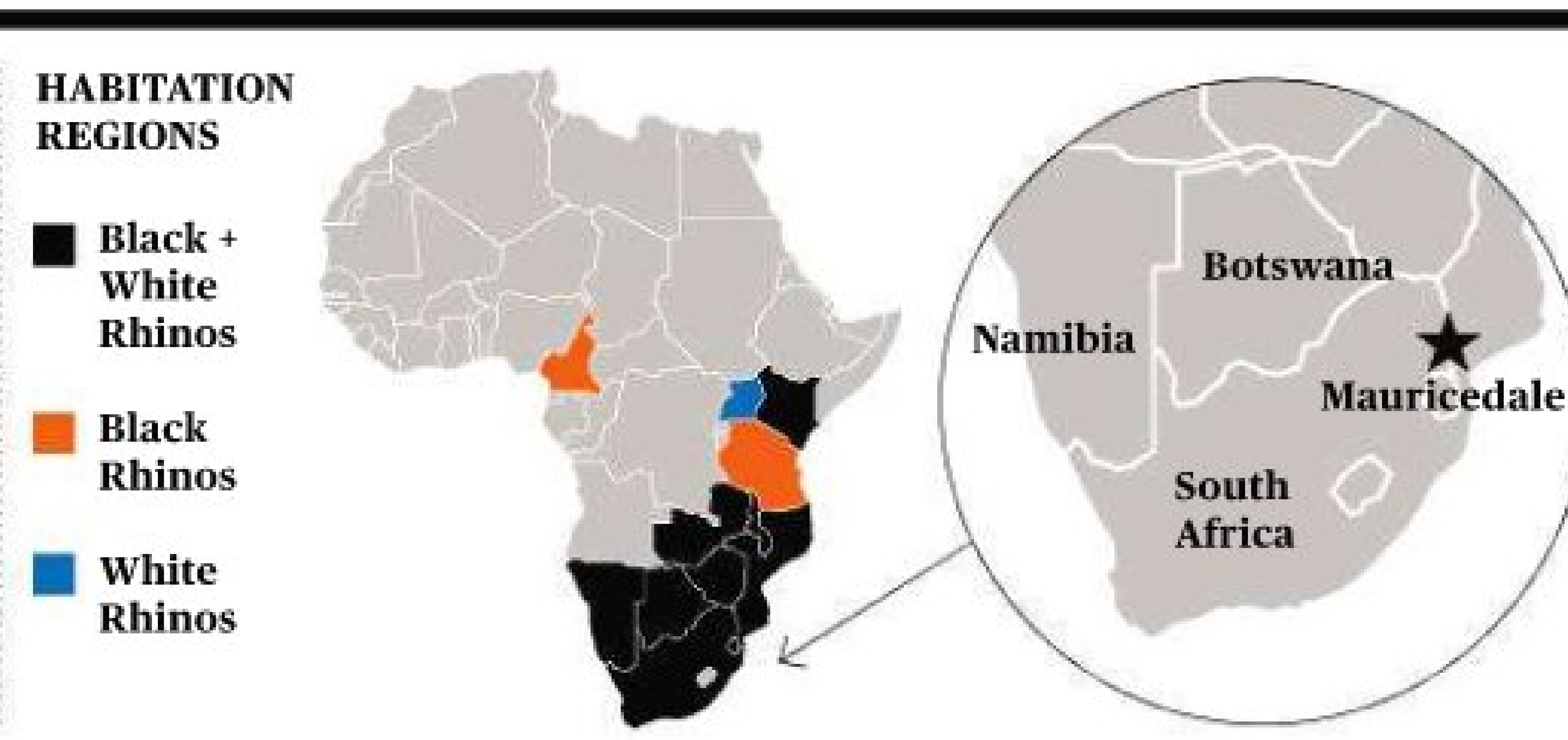
Hunting and trade of an internationally endangered species such as the black rhino is governed through CITES. From 1970 to 1992, Africa's black rhino population plummeted from 65,000 to fewer than 2,500 as professional poaching gangs sought the horns, used as decorative dagger handles in the Middle East and ground down and ingested as a supposed aphrodisiac and stomach aid in Asia. The species, under a general hunting ban, had rebounded since, to about 3,610 by December 2003. Even if South Africa had a lot of, and maybe too many, black rhinos in some areas, the country could not act alone. South Africa's deputy director of biodiversity compliance at the Environmental Affairs and Tourism Dept., Sonja Meintjes, would have to persuade two-thirds of the parties of CITES to vote to allow a hunt at the next meeting in Bangkok the following year.

Meintjes' general argument runs counter to everything conservationists have taught the world about endangered species, but she and many others believed hunting could reward both wildlife and investors such as Hume, who were setting aside huge parcels of land for the animals. Proof that hunting works

Rhinos in Africa

Geography:

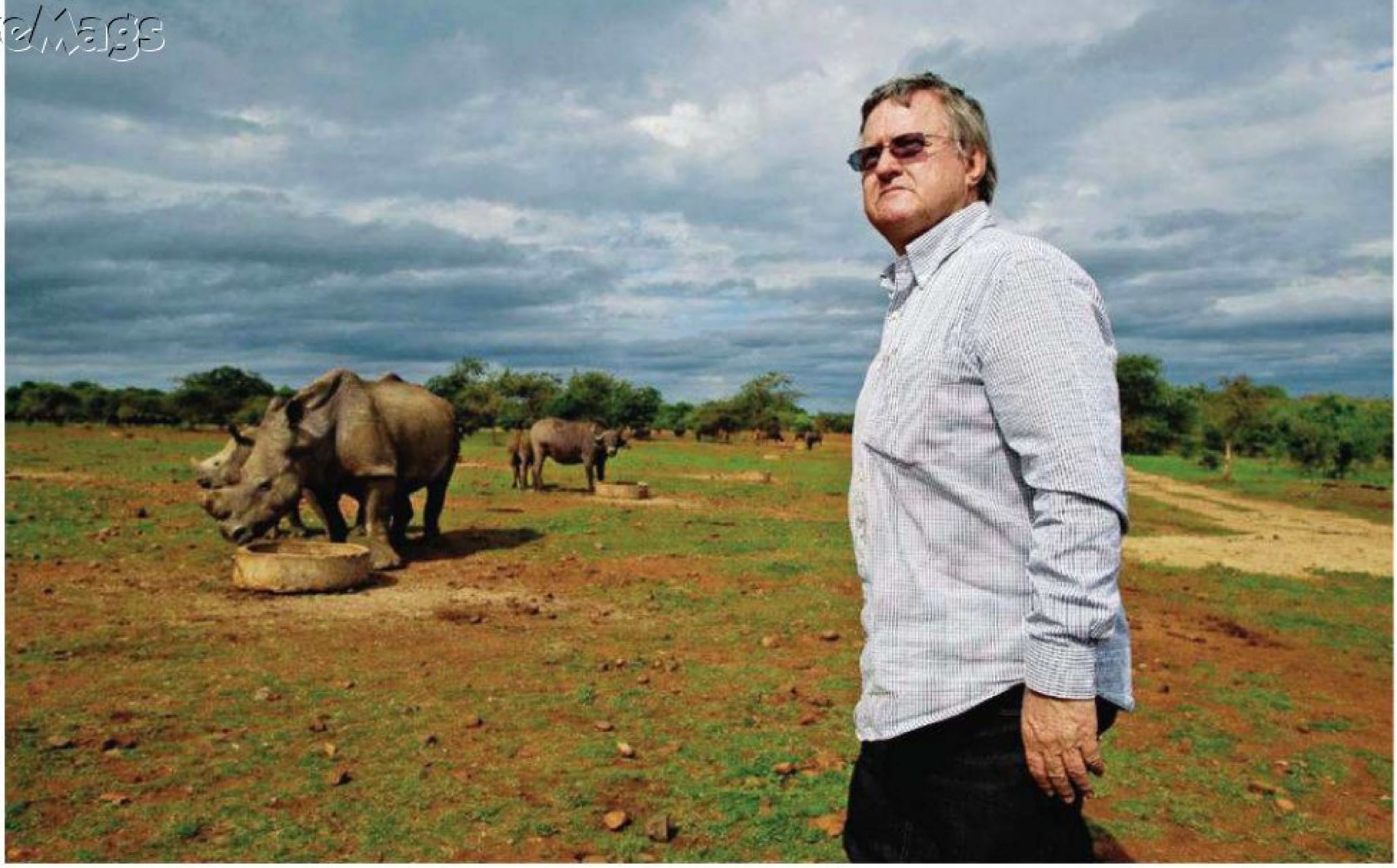
Black rhinos once ranged across the savannahs and deserts of sub-Saharan Africa, but now exist mainly in South Africa, Namibia, Zimbabwe, Kenya, and Tanzania. White rhinos roamed throughout southern Africa and in a pocket in north-central Africa.



StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags



Hume at Mauricedale ranch; behind him, dehorned white rhinos feed

can be seen in the success of South Africa's white rhino populations, says Emslie. "They started hunting in 1968 when there were 1,800 in the country. Now we are looking at 19,400." Still, black rhino hunting is hotly debated. Animal rights groups, such as the International Fund for Animal Welfare, have long opposed killing wildlife for any reason. The Endangered Wildlife Trust, a South African conservation organization, has also come out against the hunts, although it supports trophy hunting of more common species, such as leopard. "Our attitude with the rhino has been to err on the side of caution until we are sure of the stability of the population across Africa," says Tim Snow, manager of the Trust's wildlife conflict mitigation program.

As the political and scientific debate developed in the lead-up to the 2004 CITES meeting, professional hunters began jockeying for the right to guide the first legal black rhino hunt in decades. The black rhino's secretive habits and aggressive nature make it one of the most dangerous and difficult big-game animals to kill, and it has long been one of the "big five" trophy game animals, along with the elephant, lion, buffalo, and leopard. Among the contestants was Peter Thormählen, a South African of German descent, who had earned an MBA and a degree in organic chemistry in the 1990s at the University of the Free State in Bloemfontein but abandoned a future in fertilizers for a life in the bush. Hume had worked with Thormählen and picked him to run the hunt. "Professional hunters are not the most honest guys in the world," Hume says. "Peter has been by far the best we've dealt with."

In October 2004, when word came back from Thailand that Meintjes had obtained five tags for older males in South Africa, Thormählen went to the U.S., where the hunters and the money are, to find a client. He soon connected with an American hunter in the financial services business, who within days wired a $25,000 deposit on a $150,000 fee for a seven-day hunt. Most of that would go to Hume.

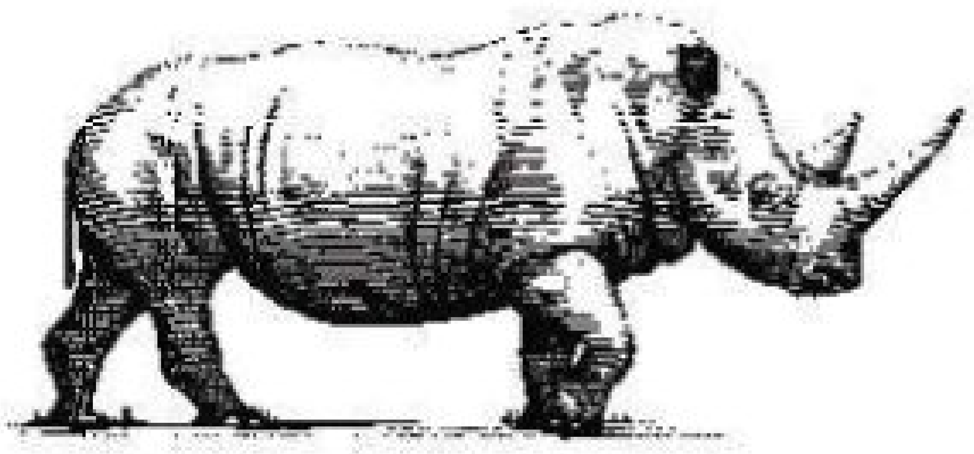
On July 21, 2005, the hunter, whom Thormählen declines to name, arrived in South Africa with his double-barreled shotgun in his luggage. Thormählen's game scouts and Hume's trackers had already been following Number 65's footprints and scratch marks for several days. Occasionally they might glimpse his hind end in the shadows or hear him rustling through the thorn bushes. At dawn on July 23, Thormählen was rumbling along in a beige Land Cruiser with the client in the passenger seat and a couple of scouts on the roof seats. Just after 11 a.m. they spotted Number 65 taking a dust bath in a shallow ravine. The bull had not yet noticed the hunters, which

ILLUSTRATIONS BY STEVEN NOBLE

Species:

There are five species of rhino in the world; all but the white rhino are endangered. White and black rhino possess two horns made of keratin, the same material that makes up hair, fingernails, and claws.

WHITE RHINO

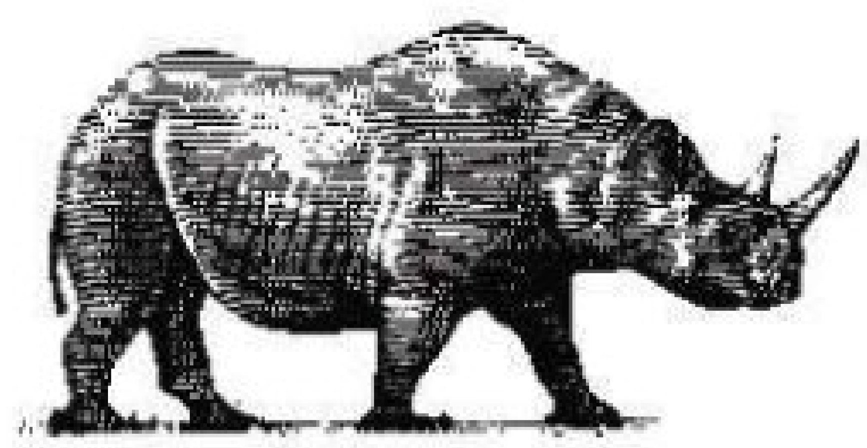


Avg. weight: *4,000-6,000 pounds*

Characteristics: *square lip, grass eater*

Price to hunt: *$50,000+*

BLACK RHINO



Avg. weight: *1,750-3,000 pounds*

Characteristics: *hook lip for eating trees, shrubs*

Price to hunt: *$150,000+*

SOURCES: INTERNATIONAL RHINO FOUNDATION, IUCN AFRICAN RHINO SPECIALIST GROUP, SADC REGIONAL PROGRAMME FOR RHINO CONSERVATION

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags

would have either sent him running or, more likely, charging.

As the rest of the team stayed by the vehicle, Thormählen and his client proceeded on foot. Suddenly the rhino noticed them and rose from the dirt. The client pulled the trigger, and the first bullet pierced Number 65's skull. The rhino, still standing, turned. A second bullet hit, and the rhino dropped dead. Thormählen, the client, and a government observer walked over to the rhino that had caused so much mischief on Mauricedale. "It was unbelievable," Thormählen says. "There was no joy or stupidity. We stood there and we were overwhelmed by what we had accomplished."

That first hunter has gone to great lengths to protect his privacy: He took no photos of himself with the rhino and according to Thormählen had at least the horn, and likely the head, exported to a second home outside the U.S. under a permit with a friend's name on it. Because the black rhino is also listed under the U.S. Endangered Species Act, the U.S. Fish & Wildlife Service would have had to issue an exception for the import of black rhino body parts, which it has never done. Louisiana lawyer John Jackson, through his organization Conservation Force, has been pressing the agency to develop a trophy-hunting policy compatible with CITES. In November 2009 he submitted a permit application for another Thormählen client, Colorado-based David K. Reinke, who paid $215,000 for his successful hunt that year, according to the application. The agency has not responded to the application and declined requests for comment.

Since then, Thormählen has led hunts for one or two black rhinos each year at Mauricedale and government game reserves in KwaZulu-Natal. He says one of his clients, Russian petroleum billionaire Rashid Sardarov, had a gun worth €450,000. Shooting one black rhino was not enough for him, and he has since shot two others. Georgi Brilling, a Russian businessman, was one of Thormählen's most reverent clients. When he shot his black rhino in 2007, he leaned over it and touched it around the eyes in awe. Thormählen tried to take photos of him with his prize, but Brilling stopped him. A snapshot of the hunter and the hunted–a fixture on the walls of most outdoorsmen–suddenly seemed cheap in the presence of one of the most extraordinary and endangered of animals. "I didn't shoot it for photos," Brilling said. "I shot it because it was one of the biggest compliments I could give to the black rhino."

Late one May afternoon at his Mauricedale office, Hume stands in khaki shorts, scooping handfuls of live mealworms and tossing them to his bird, Princess, a purple-crested lourie. A tiny klipspringer antelope teeters on hooves atop a polished wooden boardroom table. "Hello my baby, hello my baby," Hume says sweetly as he tempts the antelope with a wriggler.

Hume grew up fishing and hunting on his parent's cattle farm in southeastern Zimbabwe. He left school at 14 and soon had three farms of his own. Although he loved farming, at 25 he woke up and said to himself, "Farming is a mug's game: Just about every business you can think of is better at making money." So he started buying hotels, then a few taxi companies in the capital of Salisbury, now Harare. Eventually his 250 cabs were aiming for "a million kilometers a month."

Hume pursued other businesses in South Africa and the U.S., all the while dreaming of returning to the veldt. "The idea was just to hang out and go game driving," he says. "I don't even hunt anymore, although I will shoot something if it's wounded." In 1992 he purchased the first chunk of Mauricedale, and within a year or two he realized he could make money by breeding rare species. He began expanding the ranch, restoring land once cleared for agriculture and stocking it with antelope, Cape buffalo, and eventually white and black rhino. Today he says the farm is slightly profitable and certainly more valuable than when he bought it. It has revenue of 25 million rand ($2.5 million): About 80 percent comes from selling live animals to fellow farmers and exporters and 20 percent from hunting.

Mauricedale is more than a source of income. It's become Hume's proof of concept that the free market is the best way to conserve wildlife. Just as he was a force behind legalizing black rhino hunts, he has now hired a full-time lawyer who works to legalize international trade in white rhino horn obtained by tranquilizing the animal. Once as endangered as the black rhino, the South African white rhino was downlisted by CITES to Appendix II in 1994, meaning it is no longer endangered although it is still under threat from poaching. "White rhinos are the most incredible animals on earth," Hume says. "I'm desperately sorry for them because they need our help."

Since 2002, Hume has been cutting his white rhinos' horns every two years like a farmer shearing his sheep. They grow back. He believes this protects the rhinos from poachers and eventually will make raising them on private property economically viable. Indeed, he doesn't allow hunting of his white rhinos anymore: They're too valuable for their horns. Cobus Raath, a former veterinarian from Kruger National Park, sometimes helps him tranquilize members of the herd to cut off their horns with a chain saw. It sounds cruel, but Raath says it's just like clipping very large nails.

Mauricedale is home to more than 20 endangered black rhinos and has offered hunts for four of them





StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Today, Hume has over 500 kilograms (1,100 pounds) of white rhino horn individually measured and registered with the provincial government, implanted with government-issued microchip IDs, similar to the ones inserted in pets, and housed in safety deposit boxes at three banks around the country, awaiting a time when trade would be legal. The argument against trade in horn has always been that the legal avenues for horn can never quench the demand from Asia and may in fact fuel it. "My argument is that's nonsense," Hume says bitterly, "You give the farmer a valuable asset, and he'll do the job for you."

Until recently, horn buyers advertised openly in *Game & Hunt* magazine for "tusks and rhino horns" that have been "legally obtained." It is legal to trade horn within South Africa's borders with appropriate permissions. Hume followed up on one such offer in July 2006, when he obtained permits to ship 84 kilograms of horn to a buyer in the North West province of South Africa. Hume believes the horns subsequently left the country. He sold the horn for just 8,000 rand ($1,200) per kilogram; according to a 2008 report by the Congressional Research Service, horn sells for up to $50,000 per kilogram in Asia. At the high end, Hume's current horn stash has a retail value of about $25 million. That is, if international trade is ever legalized.

If such a scenario remains unlikely for the white rhino in the near future, it is inconceivable for the black rhino, owing to its smaller size, rarity, and reclusive habits. For that species, says Hume, trophy hunting may be its only salvation.

Before dark, Hume takes his sister out for a game drive. She climbs into the back of the white truck with his wife, and he grabs a couple beers for himself and a visitor. He drives out of the shady shelter of his homestead and slowly passes the supplemental feeding area where white rhino and their calves congregate like cattle, munching on alfalfa. It isn't quite wild, but it is still wildlife.

Evidence that the free market may be wildlife's best hope lies in the different approaches taken over the last decades in southern and East Africa, and particularly in South Africa and Kenya. In Kenya landowners have no right to use wildlife, which is controlled by the state. That has made wildlife a liability; anyone who wanted to make money legally from their land cleared it of native vegetation, chased away the antelope, rhino, and elephant, and turned to cattle and agriculture.

In the 1960s and 1970s in southern Africa, Namibia, South Africa, and Zimbabwe began managing wildlife populations through regulations and licensing fees, allowing profits to accrue directly to landowners. Fred Nelson, the founder of Maliasili Initiatives in Tanzania and a member of the IUCN sustainable use specialist group, says southern Africa has become a model for the rest of the continent. "Although they may not say it publicly, among conservation organizations that work deeply in Africa, there is little doubt that hunting can be part of a successful conservation regime," he says.

In 2007 a study by Zimbabwean biologist Peter Lindsey in the journal *Biological Conservation* showed that nearly 1.4 million square kilometers of land in 23 countries were preserved for trophy hunting, an area exceeding that encompassed by national parks or other protected areas. Lindsey, whose work has been funded by the Safari Club International, Wildlife Conservation Society, and the WWF, is not himself a hunter and says that the hunting industry has failed to own up to

Hume's horn stash is worth about $25 million. That is, if trade is ever legalized

problems such as canned lion hunting, in which lions are sometimes drugged and released from cages moments before being shot. But removing hunting from the conservation landscape would be, in his view, "disastrous."

In 1977, Lindsey points out, Kenya banned the use of wildlife for trophy hunting or ranching. Without the financial benefits of wildlife trickling down to local communities through regulated pathways, Lindsey and other conservationists contend, Kenya has lost between 60 and 70 percent of its large mammals, largely because of poaching and the conversion of land for livestock and agriculture. Kenya once had more than 20,000 black rhinos; the roughly 600 left in Kenya today survive only in protected areas.

Although most conservationists agree with Lindsey's general assertion, it's not clear that game farming can save every species. "Even if you produce a tiger in captivity, you have to sell it at a certain price to make a profit," says Nelson of Maliasili Initiatives. Tigers are reared for medicinal purposes in China, but economic studies have shown the price of raising the animals on an all-meat diet is so high that poachers will always be able to undercut it.

Poachers are precisely what Tim Snow of the Endangered Wildlife Trust fears the most when it comes to rhinos. As of November, poachers have killed 253 white and 8 black rhinos in South Africa in 2010, up from 122 in all of 2009, according to the national parks agency. "We are at our worst ever for rhino poaching," he says. Until Snow sees a more detailed population viability analysis for all of the African states, he is not willing to support trophy hunting.

Back in 2004, Chris Weaver of WWF in Windhoek, Namibia, had concerns about the scientific rigor with which older males would be selected for hunting, among other issues. Weaver has spent many years working with indigenous groups in Namibia to help rebuild and manage wildlife populations on communal lands and open them to trophy hunting. Today, for example, Damaraland—a Bantustan, or black African homeland in Namibia's northwest—boasts the largest free-ranging population of rhinos in the world. No fences. No feeding lots. Just black rhino with record-breaking horns.

Five years after the killing of Number 65, the program continues to be debated. One early hunt involved a landowner who purchased a new male specifically for a hunt, precisely the type of perverse economic incentive conservationists had warned about. Rather than creating sustainable

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

breeding populations, private ranching could end up creating a canned hunting economy. South Africa quickly tightened oversight, and permit applications are now reviewed at a national level and sent to external scientists. Thus far, the country has never granted all five permits in a year, in part because there have not been enough high-rolling hunters to pay for them. Every January, at the Dallas Safari Club convention, the Safari Club International convention in Reno, and countless smaller exhibitions, Thormählen and other operators meet prospective clients, show videos of their hunts, and regale them with tales of the black rhino and the itinerant life of the professional hunting guide.

A separate controversy in South Africa, however, has blurred the line between trophy hunting and the illegal horn trade. When the black rhino hunts were approved in 2004, WWF warned that "there are still weaknesses within South Africa's internal control of white rhino trophy hunting." In 2005 demand for white rhino hunts, which cost about $50,000, soared. Government officials soon discovered that many of the horns from white rhinos shot by Vietnamese hunters were being ground down and sold for purported cancer prevention and treatment in Vietnam and China, a commercial use prohibited under CITES. The South African government responded by limiting each hunter to one rhino hunt a year. While the episode made for graphic headlines, even Snow admits that the white rhino population is secure enough to sustain such behavior, at least in the short term.

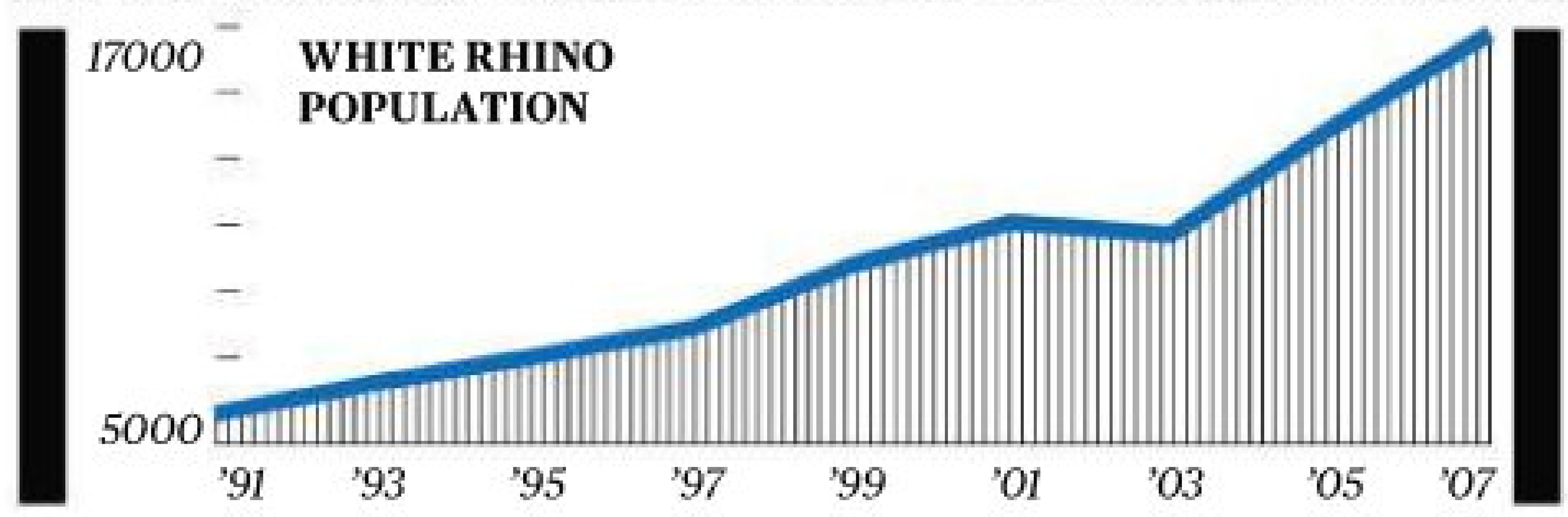
Hume says he's had three of his own animals poached on Mauricedale. He was devastated. One of the rhinos had a bullet in her nose for three days before she slipped and drowned in an artificial pond. The three poachers went on to Kruger National Park, where one was shot dead by rangers and the others were arrested. Hume sees a direct correlation between the tighter regulations and a surge in poaching in South Africa, and there is some support for his view. A November 2009 report prepared by the IUCN and WWF's wildlife trade monitoring wing, Traffic, shows that the Vietnamese legally exported their first 20 rhino horns in 2003 and that number grew to nearly 150 by 2007—a majority of the horns exported that year. Poaching was as low as it has ever been, but following the more stringent curbs imposed in February 2008 after the practice was exposed, legal Vietnamese hunters all but vanished, and poached horns appear to have made up for the difference.

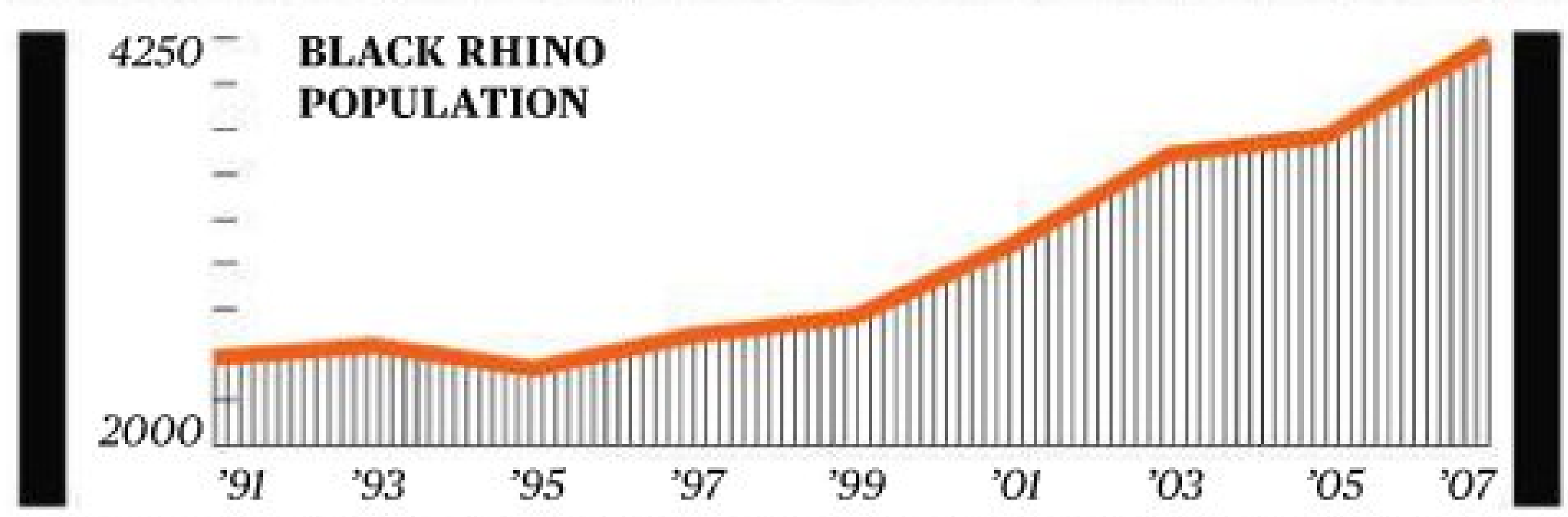
Hume has no pity for the poachers, but he views the legally hunting Vietnamese as engaging in a legitimate business transaction. "Our government forced them to pretend to be trophy hunters," he says. "Because if the rhino is alive, you cannot get an export permit for the horn."

Even Peter Thormählen has been prosecuted for leading hunts feeding the horn trade. In 2006 at the Loskop Dam Nature Game Reserve, he paid a token fine after his Vietnamese hunter casually told an official that he did not know how to shoot. The second time, in Limpopo province in 2008, Thormählen was indignant and fought the citation in court with the help of lawyer Tom Dreyer. The judge dismissed the case, calling it a technicality that the client had not actually fired the fatal bullet—a privilege that may have gone to Thormählen's teenage son. "We hunted a few," Thormählen says, "and the Game Dept. was present on nearly all of the hunts." Although he defends the practice, he says he stopped guiding the Vietnamese after the Game Dept. informed him they were involved in the horn trade. "I want the rhino to be there 20 years from now and 50 years from now for my son," he says.

Rhinos on the Rise

Rhino populations have grown since 1986, when auctions to private landowners began in South Africa, where most of the white rhinos live





DATA: IUCN AFRICAN RHINO SPECIALIST GROUP

The market for hunting black rhino continues to grow, and with it, rhino populations. In April 2009, inside the crowded Oryx ballroom of the Windhoek Country Club in Namibia, Thormählen gripped a cardstock paddle and glanced at a sea of khaki and sage. The Namibian government was auctioning off its first nine black rhino hunts, hoping to add more than $1 million to its conservation coffers. Thormählen's business, however, was suffering from the financial crisis. He wasn't sure how much money he should front on a major hunt. "It's the wrong year," he said, shaking his head.

Thormählen, exhausted from a leopard hunt the night before, was seated at the end of a long row of chairs, staring dead ahead. One hundred people were in the room as the barker, Neil Engelbrecht, started up from behind the podium. "The right to hunt one black rhino each year for the next three years," he blasted. "What do I say? Where do we start? 500,000. Thank you, sir. You're a scholar and a gentleman." Engelbrecht was starting the bid at 500,000 Namibian dollars ($58,000). From there the price soared in increments of N$50,000. Within seconds the price was up to N$1 million, and Engelbrecht warned, "The first one will be the cheapest. The last one will be the most expensive." At about N$1.3 million many bidders fell out, with the exception of a woman up front with a broad hat, the representative of a company based in Lusaka, Zambia. Engelbrecht shouted: "1.775 for the right to hunt the black rhino. No more! No more! Sold!"

As Engelbrecht announced the next concession, Thormählen kept his poker face. He was not expecting the rhinos to go so high. It was absurd. It wasn't worth it. Then, as the price crossed the threshold of N$1 million, the hunter lifted his own number, 24, and nodded his head almost imperceptibly. Again and again, he stood his ground as the price climbed.

"At 1.5 million for the third and final call," Engelbrecht shouted. "Sold for 1.5 million to buyer No. 24." B

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

South Korea:
Greener, smarter and more colourful

South Korean companies are improving the quality of people's lives with greener, cleaner technologies





Above: Chunggyecheon Stream: a major success in sustainable urban development; Left: Supersized plasma display panels in the Korea Pavilion at Expo Shanghai 2010

As South Korean industries pursue quality over mere output, companies are asking themselves the question: "Would it improve the quality of life for our users if the product was created with a mind towards being friendlier, greener, smarter and more colorful?"

In an attempt to redefine innovation in product development, South Korean companies are increasingly aiming at creating technologies that improve the quality of people's lives.

With the highest broadband penetration in the Asia-Pacific region, and ranked No.7 globally, South Korea is an ideal place for technology companies such as Samsung to trial key products before their global release – a perfect test-bed for green work concepts such as tele-working and video conferencing that create opportunities for South Korea to be at the forefront of the information and communication technology (ITC) revolution.

South Korea is not only interested in making industry greener; it is also providing the technology that will make for a greener world.

South Korea is a world leader in the field of renewable energy. Solar cell production reaches one gigawatt per year at the end of 2009 and companies such as LG and Samsung have already moved ahead and begun production of crystalline silicon cells and modules, providing a vital motor force to the nascent industry.

LG Chem, South Korea's largest chemical company, meanwhile, is making a big impact on the global auto industry by producing electric car batteries. Extending its chemical expertise into high-tech areas, it has been securing contracts to supply lithium-ion polymer batteries with GM and Renault as well as with Korean automakers such as Hyundai and Kia.

Hyundai Motor Co. recently unveiled the company's and South Korea's first Full Speed Electric Vehicle (FSEV) named 'BlueOn,' opening a new era in eco-friendly technology. BlueOn boasts a maximum speed of 130km per hour and can reach 100km per hour in just 13.1 seconds, better than some petrol-driven models in the same class. It can travel as far as 140km on a single charge. It also accommodates dual recharging methods: 220V household power and a 380V industrial-strength power, which promises quick recharging speeds. Using household power, the battery can be fully recharged within six hours. Under the quick charge method, however, the battery can be recharged to about 80 per cent of its capacity within 25 minutes.

Hyundai is planning to provide 30 BlueOn vehicles as test fleets to various government organisations in South Korea, promoting the country's eco-friendly image at the upcoming G20 summit.

Coupled with these innovations, South Korea's hopes for a green future also hinge on the use and production of high density memory in semiconductors, bringing significant power savings to data centers, server systems and high-end laptops. Samsung Electronics has begun mass producing the industry's first low-power four gigabyte DDR3 devices using 40 nanometer class process technology. Samsung Electronics and Hynix, currently ranked first and second respectively in global market share in the DRAM market, together dominate the sector with 54.1 per cent global share.

Adding colour to consumers' lives has been a byword for the South Korean display industry since it rose from relative obscurity just a few short decades ago to its dominant position in the world market today. It was one of the few sectors to survive the downturn with ease, recording a continuous surplus up to 2009. The LCD Big 2s, Samsung and LG's combined took more than 50 per cent of the global LCD market share.

As Korean industries perfect their products, cutting edge technologies are continuing to find friendly, smart, green and colorful solutions that improve the quality of life for users around the world.

Advanced Technology KOREA

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

THE HOTEL LONG SHOT

Can service and style outwit a financial crisis? Inside a $600 million bet that the answer is yes.

By Devin Leonard
Photographs by Ofer Wolberger

StoreMags - Free Magazines Download in True PDF format

One morning in December 2009, Thomas Mathes went looking for a place in New York's Chelsea neighborhood where he could plug in his laptop. He visited at least eight Starbucks, only to discover that other people with computers had claimed all the electrical outlets. "It was the craziest thing," he says.

Mathes wasn't looking to pass idle hours browsing the Web. A month earlier he had been named general manager of the Eventi, a new 292-room luxury hotel run by Kimpton Hotels and Restaurants being built several blocks north on Sixth Avenue in Manhattan. The Eventi was scheduled to open in May, but the windows in the building didn't have any glass yet. It was freezing in there. Mathes had a temporary office elsewhere, but he didn't have a key.

That wasn't the only thing vexing him. This was also a terrible time to be opening a luxury hotel. The lodging trade is accustomed to periodic bad times, like the months after September 11 when travel ground to a halt. Nothing compares, however, with what the industry experienced in the wake of the financial crisis, as companies slashed travel budgets to conserve cash and leisure travelers put off vacation plans.

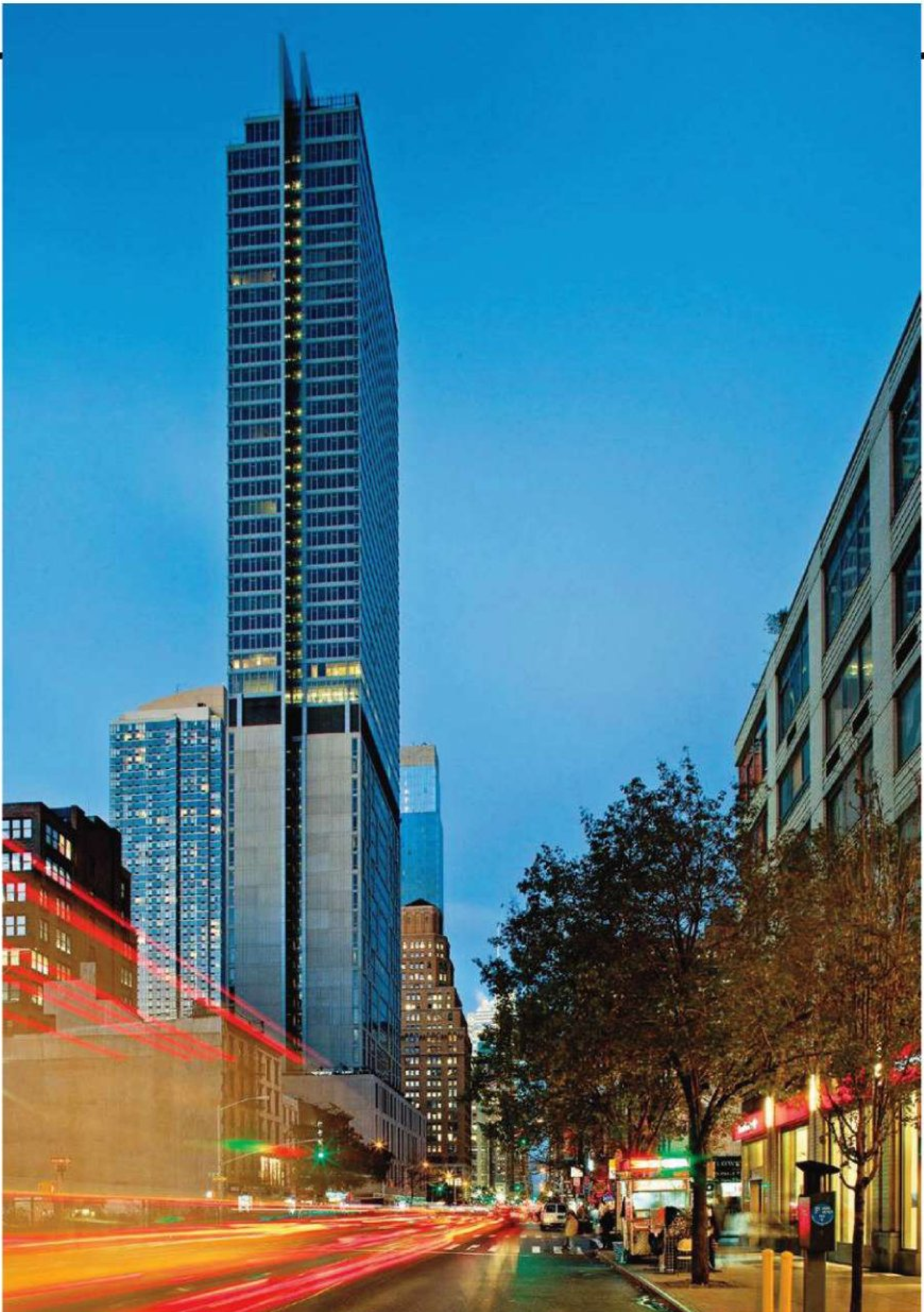
Mathes would be pitting both his management skills and his understanding of the upscale traveler against the still-fragile economy. The fate of a $600 million project in the heart of Manhattan was at stake. And he was hardly the only hotelier faced with such a challenge. The story of the Eventi is a window into the post-financial-crisis travails of the entire lodging trade.

The downturn ravaged hotels. Inns of all stars reduced their rates by an average of 9 percent in 2009, according to Smith Travel Research. Total occupancy fell to 55 percent, seven points below the long-term average. The only way hoteliers kept "heads in beds" was by rampant rate-shaving, hardly a promising sign for a luxury entrant like the Eventi. The guests who did show up were wary of pay-per-view and the minibar. Revenue per room plummeted 17 percent.

It was worse at high-end hotels, which suffered a 24 percent revenue decline. Starwood Hotels and Resorts Worldwide, the nation's third-largest hotel company, saw its net income drop by 77 percent in 2009. Marriott International and Host Hotels & Resorts, the first- and second-largest chains,

Release: StoreMags & Fantamag. Magazines for All

StoreMags



The Eventi is a $600 million bet that Manhattan needs a new luxury hotel

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags



Mathes (in red tie) leads a team-building samba lesson on the hotel veranda

respectively, ended the year losing money. All told, it was "the worst fundamental decline in the modern lodging era," say Paul Morgan and Ryan Meliker, analysts at Morgan Stanley.

Hotel analysts were predicting more agony in 2010, and with good reason. Before the financial crisis, the business had been on a roll. Room rates were rising. The prices of hotels themselves were climbing quickly as well. Banks didn't see this ending anytime soon. They bet heavily on America's wanderlust: At the end of 2007 they held $38 billion worth of construction loans for new hotel projects, according to Foresight Analytics.

Many of those projects were never built. Lodging Econometrics says 1,229 hotels have been abandoned in the U.S. since Lehman Brothers blew up two years ago. But thanks to the 18- to 24-month lag between groundbreaking and ribbon-cutting, shiny new hotels have been rising around the country despite the sour economy. In the past two years, 785 hotels have opened, dumping 91,378 new rooms into a battered market. The Eventi was one of them, and, once he found an outlet to plug in his computer, it would be Mathes' job to fill rooms at a time when the last thing the public demanded was another luxury hotel.

The only child of a single mother who worked two jobs, Mathes, 34, grew up in Memphis. He fell in love with the hotel business as a young boy, staying up past his bedtime to watch *Hotel*, an Aaron Spelling soap opera starring James Brolin as Peter McDermott, the hunky general manager of the fictitious St. Gregory Hotel in San Francisco. "I thought it was so wonderful," says Mathes. "The men were all dressed in their tuxedos. The ladies were in their sequin gowns. They were all standing in front of the fountain in the lobby, drinking champagne. I thought, 'This is exactly what I want to do when I grow up.'"

He started working in hotels as soon as he graduated from high school and ended up at Kimpton's Hotel Allegro Chicago in 1999, where he enlivened the cavernous lobby with a portable DJ booth. He moved to New York in 2006 to oversee the renovation of The Muse Hotel, a 200-room Kimpton property in Times Square. Before long he was lobbying for the top job at the larger Eventi.

When he got the assignment, he and Shannon Spillett, the Eventi's marketing director, started with some espionage. They dropped by the lobbies of newer hotels below Times Square, claiming to be the founders of an "emerging fragrance company." No, they didn't have business cards yet, but could they have a tour? The spies learned which investment banks and fashion designers were booking meeting space. As soon as workmen had installed glass in the Eventi's windows and turned on the heat, Mathes called those customers and offered them a rate far below the competition. "We knew that if the W Hotel in Union Square had a group, we could steal it at the right price," says Mathes. "So that's what we did."

When potential guests arrived at the Eventi, they discovered a luxe retreat with hand-carved Indian paneling and whimsical pieces by artist Barbara Nessim scattered throughout the premises. It was warm and comfy, as Kimpton founder Bill Kimpton liked his boutique hotels to be. Mathes personally tried out every chair in the building. His favorite: a red leather number in the three-room, fifth-floor Veranda Suite, which rents for $5,000 a night. He interviewed every candidate for a job, meeting them six at a time. If prospective employees struck him as even slightly rude, he crossed them off the list. He couldn't risk offending a single customer at such a critical time.

As anybody who has checked into a luxury hotel and recoiled at the prices on the room service menu might suspect, a place like the Eventi can be a cash machine. Hotels generally make a profit of more than 75 percent on room rates, says Bjorn Hanson, dean of New York University's Preston Robert Tisch Center for Hospitality, Tourism and Sports Management. They don't do badly on food and beverages, either: Hanson says they make a 25 percent margin on those $6 glasses of orange juice and $8 bowls of oatmeal. "It's a pretty good gig," he says. The catch is that the business is extremely cyclical. When the economy tanks, most people realize they can get by without a $5,000 suite.

One way hotel companies limit that risk is by shedding much of their real estate. Kimpton owns only 26 percent of the real estate in which it conducts business, preferring to find developers willing to shoulder debt and expenses in exchange for a share of the proceeds. NYU's Hanson, a former lodging industry consultant at PricewaterhouseCoopers, says hotel operators take upwards of 12¢ of every dollar that comes in the door. The developer receives the rest but also pays most of the bills and might not have much left over after paying for upkeep and covering debt service. "It's what you might call a psychic reward," Hanson says. "A lot of trophy hotels aren't very good investments for the property owners."

Kimpton struck such a deal in 2007 with Jules Demchick, the New York developer who built the Eventi. Both parties were expanding at the time. Kimpton already operated two New York hotels and wanted another. Demchick, 71, was known primarily for condominiums, and he planned to build 30 floors of condos above the 23-story Eventi.

A banking consortium including Bank of America and

"We knew that if the W Hotel had a group, we could steal it at the right price," says Mathes. "So that's what we did."

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

HSBC loaned Demchick $370 million for the project in early 2008. By then the condo market had collapsed. Four months later, Lehman Brothers went bankrupt. Demchick moved ahead despite the crisis.

On opening day last May, the entire staff gathered in the Eventi's lobby to greet their first guest, who arrived from the airport in a purple sports car provided by Mathes. They all burst into applause as the startled traveler walked through the front door. Mathes and Spillett took him up to his room and showered him with cookies, a picture book about Central Park, and a pair of funny-looking socks. Mathes then handed him two second-row-center seats to a U2 show at the New Meadowlands Stadium across the Hudson River in New Jersey. The hotel had done some sleuthing about the visitor, a frequent guest at Kimpton hotels around the country, and discovered he was a die-hard fan of the Irish rockers.

That first customer, whose name Mathes won't reveal, was so overwhelmed that he started to cry. The next thing Mathes knew, he was sobbing too. "We got emotional," he says. "We were all hugging and crying. Shannon and I were telling him stories about opening the hotel. I was like, how did it get to this point? And it was only the first day."

The hotel business started to show unexpected signs of life early this spring. By May, just as the Eventi was opening, the recovery was under way. That month, occupancy climbed to 59 percent. Revenue per room shot up 7 percent compared with the same month in 2009. Americans were traveling again.

"I think executives realized they may have cut travel back too far in 2009," says Jan Freitag, a Smith Travel Research vice-president. "You need to shake hands and break bread to get deals done. You can't do that over Skype."

If only Mathes had been more prepared. He figured on filling only 60 percent of the Eventi's rooms during the first few months, in line with the historic national average but far below the norm for Manhattan. So he had hired only a skeletal housecleaning staff. If business picked up, he planned to raise prices and bring more employees aboard. Almost from the start, however, 80 percent of the Eventi's rooms were booked. Mathes increased the basic nightly rate from $299 to $450. He scrambled to hire temporary workers to change bedsheets and clean bathrooms while adding to his army of permanent housekeepers. "You don't really expect to open the doors and have that happen," Mathes says.

The only person involved in the project who isn't celebrating–yet–is the developer and owner, Demchick. In an interview in early October in his office on Park Avenue, he said he was still putting the finishing touches on a public plaza outside the Eventi and trying to rent the 300 residential units that he had originally hoped to sell as condominiums before the real estate crash. At the time, he had leased 140 of them. "That's pretty good," he said.

Still, the developer was anxious. While the hotel business is looking healthier than it was a year ago and the Eventi is off to a promising start, Demchick has to service debt with terms negotiated near the height of the national real estate bubble. Room rates around the country are still 27 percent lower than they were before the financial crisis of 2008. Because of that, Hanson estimates, a quarter of the hotel owners in New York City are having trouble paying off their bank loans. Demchick's lenders, Bank of America and HSBC, would not comment for this article. Both banks appear to have taken an interest in the Eventi, sending delegations of executives to look around the hotel, and Demchick said he is on good terms with his lenders. He told *Bloomberg Businessweek* to check back with him in a year about the project. "I'm always nervous," Demchick said. "I'm nervous we are having this conversation."

On the Tuesday before Thanksgiving, Mathes gives a tour of Bar Basque, the Eventi's science fiction-themed restaurant. The walls are red, the lighting is weird, and there is spooky digital writing everywhere. Mathes, wearing Prada glasses and a dark Hugo Boss suit, pauses at the bar and gazes proudly at his surroundings. The place looks a little like the interior of the Death Star.

Business travel has tapered off this week, and occupancy is around 75 percent. Mathes is using the lull to spiff up the place before the city's busiest season. From early December to New Year's Eve, Manhattan is usually overrun with travelers. Mathes is selling rooms in advance for $600 apiece.

Even so, he will permit the Eventi's occupancy to rise only 5 percent. He says he could easily sell it out, but he would make less money. He would have to trim his rates–or, as he puts it, "drop his pants"–to fill all his rooms. He would have to keep more employees on duty, and there would be more wear and tear. Mathes would much rather charge a premium and bank a healthy profit during the Christmas season. "We're in business to make money," he says.

"It's just like you go to Louis Vuitton for a bag," Mathes explains. "They put it in one of those beautiful boxes and tie a little bow around it. If they just threw it in a plastic sack, you'd say, 'Why am I playing $1,200 for this?' The hotel business is no different. It's all about tying that little bow around everything." **B**

From the top: The Eventi lobby; the $5,000-a-night Veranda Suite; Mathes, on the terrace





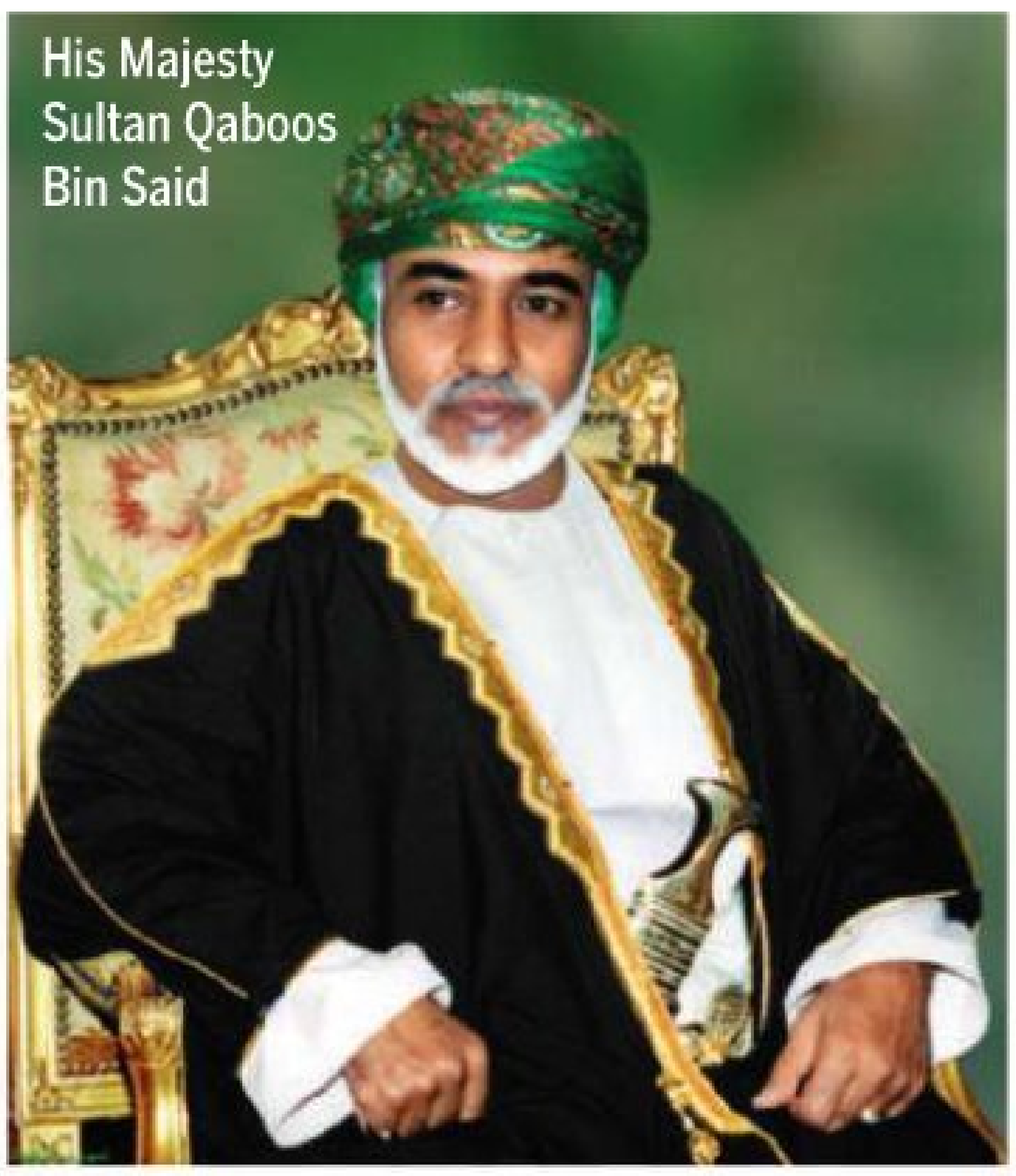


StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

The sultanate of Oman: celebrating four decades of progress



His Majesty Sultan Qaboos Bin Said

A SULTAN'S 40 YEAR WAGER HAS PAID OFF

When His Majesty Sultan Qaboos, assumed power over Oman in 1970, he had an ominous task laying before him. Oman - historically a strategic hub on the global sea routes, stretching all the way to Zanzibar - had fallen vastly behind its neighbors in its attempts at modernization. The country suffered from an unstable economy, low standards of living, political and social instability, and an utter lack of infrastructure.

Today, Oman is in many ways unrecognizable to its former self, thanks largely to the Sultan's meticulous planning and tireless commitment to reform. Over the course of 7 ambitious five-year plans, the Sultanate has found success in transformation, unlocking the potential in the nation's resources and in its people.

The United Nations' 2010 Human Development Report ranked Oman the world's 'top mover' in its Human Development Index (HDI)

The figures speak for themselves. Since 1970, Oman's GDP has increased a dizzying 170-fold. GDP per capita, on par with the MENA region (PPP) as recently as 1980, now has surged to nearly three times the region's average. The nation today ranks as one of the world's top ten in primary health care provision.

Not surprisingly, the United Nations' 2010 Human Development Report ranked Oman the world's 'top mover' in its Human Development Index (HDI), confirming the country's impressive improvements in 'health, education, and basic living standards' over the past 40 years.

The Sultan's key to success, it seems, has been reinvesting oil profits back into the Omani economy and its people. According to H.E. Ahmed Macki, the Minister of National Economy, in 2010 Oman invested a whopping 17.8% of its budget on social structure funding, including education and vocational training programs. With conservative oil forecasts built into its budget, resurgent oil prices will bring even further cash to programs. In the first half of 2010, the government has already shown a 31% jump in revenues.







Investing for the Future of Oman

Oman Oil Company S.A.O.C. is focused on developing oil and gas-based industries and other energy and energy-related projects in partnership with international industry players, capturing the value chain in the oil and gas sector.

Our investment portfolio has diversified, to include Exploration & Production and related services, Infrastructure & Shipping, Refining & Marketing, Petrochemicals, Aluminium and Power.

Parallel to our business growth, we are committed to the sustainable development of the country and will always remain so.

www.oman-oil.com

شركة النفط العمانية ش.م.ع.م.
Oman Oil Company S.A.O.C.

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Yet, despite the rapid speed at which the country has progressed, Oman has not abandoned its history, traditions, and uniquely Omani characteristics that set it largely apart from its Middle-Eastern neighbors.

Addressing his national council on the significance of Oman's achievements, H.M. Sultan Qaboos stressed, "Everything that has been achieved with a precise balance between preserving the best elements of our heritage, in which we take pride, and the demands of the present day which require us to adapt to the spirit of the modern age."

Now, as the Sultanate concludes its 7th five-year plan (2006-2010), and prepares to embark on its 8th, this careful blend of traditional and modern looks sure to propel the country to new heights. Oman has indeed emerged on the world stage and its economy, forecasted to grow at 6.1% this year, offers equally promising returns to savvy investors looking for long-term growth potential.

Economic **Expansion and Diversification**

Like many of its neighbors, the Sultanate's economy has been driven by the creation and expansion of a vibrant oil industry. First discovered in 1964, the Omani government today produces roughly 875,000 bpd, recording output in September 7% higher than 2009 levels according to Ministry of Oil and Gas Under Secretary H.E. Nasser al-Jashmi. The Ministry recently confirmed to Bloomberg that it has plans to expand production to reach the important one million bpd threshold by 2015.

At the helm of this growth is state-owned **Oman Oil Company (OOC)**. Established in 1996 by the government to better manage oil investments and utilize the country's oil reserves, OOC has increasingly made its mark overseas, with strategic investments in 9 countries.

Perhaps most importantly for the country, OOC has aggressively moved its investment downstream into infrastructure, shipping, petrochemicals, refining and metals. Having known the fiscal hardships of oil crises, the Sultan has long been wary of resource overdependence and has placed the nation on a steady path towards economic diversification.

A bevy of high tech industrial parks scattered throughout the Sultanate – including Sohar, the nation's industrial engine - has facilitated this transition. Groundwork for future Industrial Parks and a Free Trade Zone has already begun.

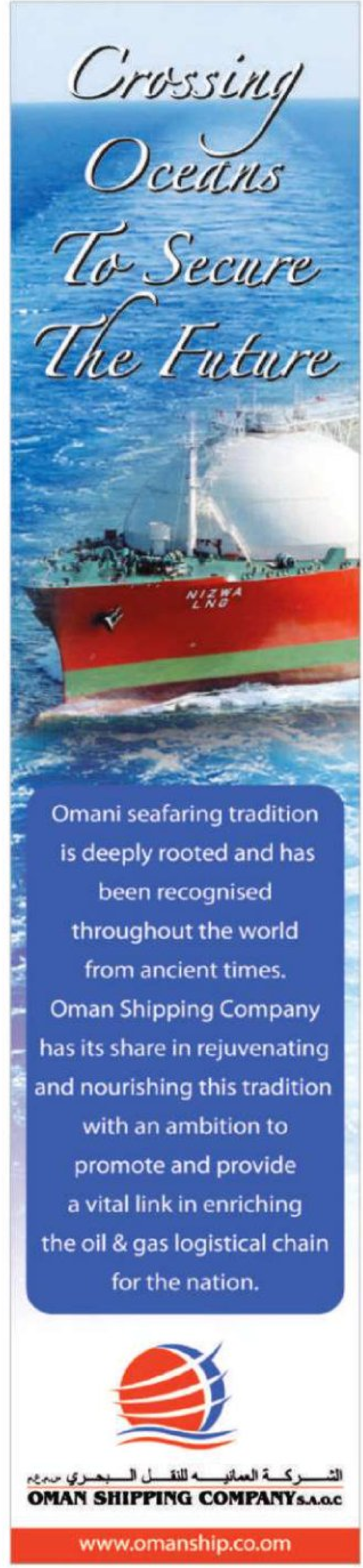
A shining example of the country's value added economic trajectory is **Sohar Aluminium (SA)**, a state-of-the-art aluminum plant launched in 2008 by OOC and multinational partners. SA plans to sell '60% of its annual production capacity' to companies based onsite in Sohar, evidence of a strong clustering effect already taking place within the Omani economy. In its short life, Sohar Aluminium has proven a big success. Company stakeholders have already begun talks to undergo a large-scale upgrade to its smelter, roughly doubling its capacity to 720,000 metric tons per year.

"We want Sohar Aluminium to grow," explains SA CEO Henk Pauw. "It is very strategic for Oman and Sohar Aluminium plays an important part in Oman's plans for its future. Not so much the smelter on its own but also the downstream here at the port of Sohar and Sohar Free Trade Zone."

Nearby in Sohar, construction is just finishing on an industrial complex to house the **Vale Oman Pelletizing Company**, a 30/70 joint venture between OOC and international mining giant Vale, which was inked in May. Vale, which moved its Middle East headquarters to Muscat in 2007, will use its Sohar facility for processing raw iron ore from Brazil and exporting to regional markets.

"[For] almost 5 years, we were looking for an alternative in the region to settle our operations in this very important part of the world," recalls Sergio Leite, Chief of Vale's Oman operation. "Then we were invited to visit Sohar industrial port and we realized its importance from a logistic point of view, as it is a deep water port outside the gulf region."

Perhaps one of the most successful chapters in Oman's economic diversification story has been that of the **Oman Indian Fertilizer Company (OMIFCO)**. Formed as a joint venture between OOC and Indian partners, OMIFCO took advantage of the high demand for fertilizer (Urea) in India and the availability of gas in Oman to sign a supply deal with the government of India at a low price - supplying excess capacity at now soaring market values. The venture has paid of tremendously.



StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Focus on **Competitiveness**

OMIFCO's success and the success of the countless others multinationals active in Oman today tell the story of the country's rapidly growing competitiveness. In the 2010-2011 WEF Global Competitiveness Report, Oman improved 7 rankings from 2009-2010 to become the 34th most competitive country in the world.

One way the Sultanate achieved this was by cutting all unnecessary barriers and stifling bureaucracy – forging a world-class center for business. "We have put in place a One Stop Shop," Minister of Commerce and Industry H.E. Maqbool Sultan explains. "Now you can form a company in hours electronically."

> "One of the main advantages is that Oman has been very stable since 1970, it has given us an opportunity to plan, to look forward."

Others point to the steady course of progress, laid out by a comprehensive 40 year development plan, as key to the nation's economic success.

"One of the main advantages is that Oman has been very stable since 1970," explains Mr. Khalid Al Zubair, Managing Director of The Zubair Corporation. "It has given us an opportunity to plan, to look forward."

The Zubair Corporation has seized upon this opportunity, building a diverse empire of over 60 wholly owned companies, subsidiaries and associates in Oman and around the world. Founded in 1967 as a "simple paint shop," the same year that oil began flowing from Omani wells, **The Zubair Corporation's** areas of expertise have gradually diversified into a wide range of competencies, from automotive to tourism. This in many ways reflects the country's own maturity and shift away from oil dependence.

Together, the country and the corporation have shared many first, remembers Al Zubair. "The first power generating station was built by us. The first transportation was founded by us. The first fixed phone network was installed by us and [we] had very early alliances with foreign companies. We had the vision of finding out where the country was going, where the opportunities would be in the following years."



StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Investing in the People

OAMC
الشركة العمانية لإدارة المطارات ش. م. ع. م.
OMAN AIRPORTS MANAGEMENT COMPANY S.A.O.C.
www.omanairports.com

One of Zubair's primary goals, through the corporation's many multinational partnerships, is to train Omani workers to fill all job openings - a process known as "Omanisation." As one of the pillars of the Sultan's growth strategy, the Omanisation process has through the years elevated the skill level of the local workforce and provided a layer of labor market and macro-economic stability rare in the region.

"It is easy to get everything from outside, investments, executives, labor," explains Minister of Commerce and Industry H.E. Maqbool Sultan. "But human resources development was and is one of our priorities."

Thus, trading off the short-term labor market rigidities inherent in the program, the country's long-term competitiveness is undeniable- fuelled by a highly skilled, dynamic young workforce.

"Having young employees is both a challenge as well as an opportunity," says one representative of **Oman Shipping Company (OSC)**, one of the fastest growing Omani ventures. "Young minds can absorb technology very fast; they have a lot of ambitions and are ready to work hard."

A skilled young Omani workforce will certainly be critical in continuing the course that OSC, a joint venture between the Omani government and the **Oman Oil Company**, has charted. Founded in 2003 as a predominantly LNG oriented operation, the young shipping company has already capitalized on the surge in dry bulk and liquid markets – catering to the industrial operations sprouting up throughout the nation's industrial zones. The venture has exceeded expectations: OSC currently owns 19 vessels, but is now realizing an ambitious plan to increase this number to 42 by the end of 2012.

Some might say that OSC's success is enhanced by and indicative of the country's longstanding geo-strategic location. Indeed, for centuries Oman has occupied one of the world's most valuable hubs for global commerce. However, until recently, Oman had failed to capitalize in modern times on its positioning due to an often times non-existent infrastructure. This trend, thanks to the Sultan's long-term strategic plan, has long been reversed.

StoreMags - Free Magazines Download in True PDF format



We are a global mining company. We are present around the world, including in Oman.
In 2009 we began building a new industrial complex in Sohar, which includes a pelletizing plant and distribution center.
The goal is to generate 720 direct and another 1,800 indirect jobs during the start-up phase. In all, around US$2 billion will be invested in the project. This is the mining of the future, helping to improve the future of Oman. Today and tomorrow.
Vale. There is no future without mining. And there can be no mining without caring about the future.
VALE

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Reopening an Ancient Gateway to the Middle East and Beyond

When H.M. Sultan Qaboos came to power, the Sultanate of Oman had no more than 6 miles of paved roads to its name. Today, an extensive grid of modern highways, ports, and airports connect every corner of the vast country and link it to the busting commercial network of the surrounding region.

"There has been a quantum leap during the past four decades since H.M. Sultan Qaboos Bin Said took over," explains H.E. Dr. Khamis Al Alawi, Minister of Transport and Communications, highlighting the profound economic effect such changes have brought to the country.

"To change regulations and encourage foreign investment is not enough," says H.E. Maqbool Sultan on the Sultan's vision for economic growth. "You need to have the right infrastructure for business, like having Free Zones, ports, airports and roads."

One of the largest infrastructure investments has been the development of major airports throughout the country.

The government is betting that enhanced accessibility to some of Oman's more remote and beautiful regions will promote the burgeoning tourism sector like never before.

In preparation for an estimated boom in arrivals, Muscat International Airport too is expanding its wings- embarking on a massive and costly upgrade to facilitate 12 million passengers per year.

"We are talking of a structure of 530 thousand square meters and two runways," says **Oman Airport Management Company** CEO George Bellew. "The mandate that we have from the government is that they expect a performance by way of services delivered to users, which is truly world's best practice." Plans have already been tabled for future expansion up to 48 million passengers.

The government is betting that enhanced accessibility to some of Oman's more remote and beautiful regions will promote the burgeoning tourism sector like never before

Finally, the country is rapidly building upon its already impressive ports network to become a dominant player in global logistics. The Port of Duqm, for example, now under construction, will be one of the largest dry docks in the region upon completion.

"The Sultanate's government realized that the exploitation of [its location] would create a major economic contribution to the national income through the development of harbors and ports," explains Undersecretary for Ports and Maritime Affairs H.E. Said Al-Harty.

The nation's value as a strategic trading hub has not gone unnoticed, with many countries seeking to leverage easy access to the Middle East, Africa, and Asia while bypassing the Straits of Hormaz. Oman now enjoys a Free Trade Agreement with US, testament to the long-term strategic advantage of Oman's potential as a global gateway.

The government is now targeting more partners and investors from around the world to help build upon the miraculous success of the past 40 years.

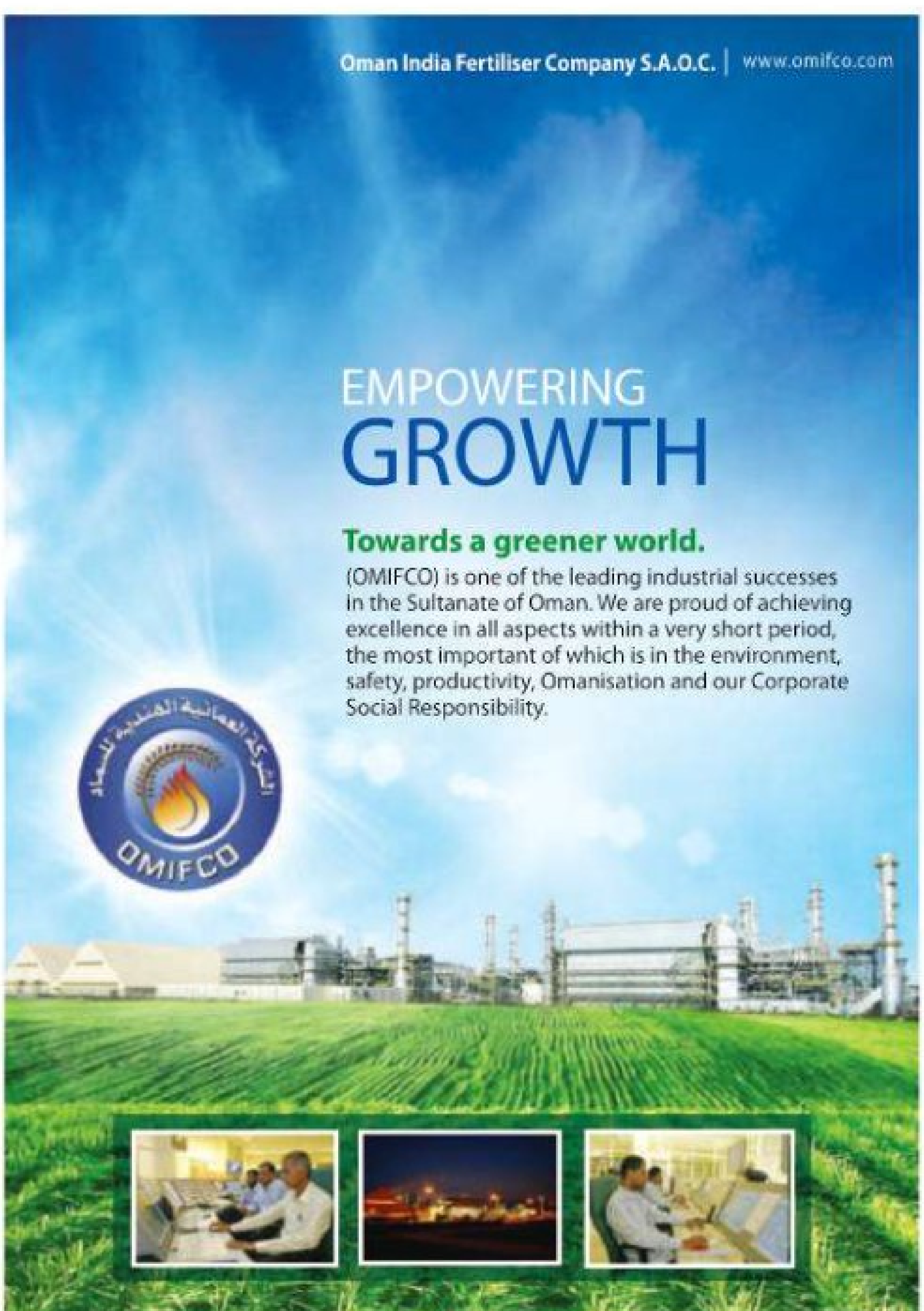
"Oman is an ideal platform for growth; the stability of our market, of our political system, of our laws and regulations," says Khalid Al Zubair. "From a partnership in Oman, your reach will be regional and global."

Such optimistic statements, pouring in from Oman and around the world, confirm much of what too can be seen on the ground: a proud young nation that has transformed itself in the blink of an eye into a economic powerhouse, eager to play a greater role on the world stage.

"Here we are today, in this splendid land, celebrating the 40th anniversary of its progress," said the Sultan recently, reflecting on the nation's progress. "[The Country's] achievements in many fields are plain for all to see and have changed the face of life in Oman, enabling it to assume a position of eminence at both regional and international levels."

One can only wonder what the Sultan has in store for the next 40 years.

The Bottom Line: *Relying on long-term vision, economic diversification, and domestic reinvestment, Oman has avoided the pitfalls of financial and real estate bubbles that have plagued the region. Bet on robust, sustainable growth from the Sultanate for years to come.*


Produced by ECONEWS & Prod Ltd - info@econewsprod.com

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags - Free Magazines Download in True PDF format



Opportunities are all around, and we have the know-how to make them happen. For over four decades, The Zubair Corporation has played an integral role in the development of the Sultanate of Oman and the region, in almost every major industry, and we are continually looking to explore new partnerships, establish business relationships to build our vision for the future.

To learn more about how we can work together, contact us at bd@zubaircorp.com

Real Estate Development Tourism Furnishing Energy ICT Construction Development & Engineering Investment Communication Transportation

مؤسسة الزبير
The Zubair Corporation
Future Ready

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Quieter than ever before.

Bose® QuietComfort® 15
Acoustic Noise Cancelling® headphones.



Our best headphones. Since we introduced the world's first noise cancelling headphones over 20 years ago, we have conducted continuous research to improve this technology. Now, we have engineered significant advances in noise reduction to make the QC®15 headphones our quietest ever. Exclusive Bose technologies electronically sense more of the sounds around you, reducing more noise across a wider range of frequencies. And we didn't stop there. We developed an ear cushion that further reduces unwanted noise and helps create an extremely comfortable fit. It works in harmony with the electronics to deliver a better listening experience. ExecDigital.com says they are "easily the best headphone available" and Murray Hill of Canada.com calls them "fabulous."

Try them for yourself risk free. When you fly, the engine roar fades even further away. When you listen to music at home or at work, fewer distractions get in the way. Less noise, along with our acclaimed lifelike sound, a fit that stays comfortable for hours and the quality you expect from Bose. It all adds up to a combination of benefits unmatched in the industry. Seth Porges of *Popular Mechanics* states that "Compared to the competition...the QC15s are vastly superior." You can relax and appreciate music, movies or just some serenity more than ever before. We invite you to try QC15 headphones for yourself risk free for 30 days. And when you call, ask about making **12 easy payments,** with no interest charges from Bose.* We're so sure you'll be delighted, we'll even pay to ship them to your door.

Welcome to an even quieter world.

To order or learn more:
1-800-729-2073, ext. Q8065 or visit Bose.com/QC

BOSE®
Better sound through research®

*Bose payment plan available on orders of $299-$1500 paid by major credit card. Separate financing offers may be available for select products. See website for details. Down payment is 1/12 the product price plus applicable tax and shipping charges, charged when your order is shipped. Then, your credit card will be billed for 11 equal monthly installments beginning approximately one month from the date your order is shipped, with 0% APR and no interest charges from Bose. Credit card rules and interest may apply. U.S. residents only. Limit one active financing program per customer. ©2010 Bose Corporation. Patent rights issued and/or pending. The distinctive design of the headphone oval ring is a trademark of Bose Corporation. Financing and free shipping offers not to be combined with other offers or applied to previous purchases, and subject to change without notice. Risk free refers to 30-day trial only and does not include return shipping. Delivery is subject to product availability. Quotes reprinted with permission. C_008974

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

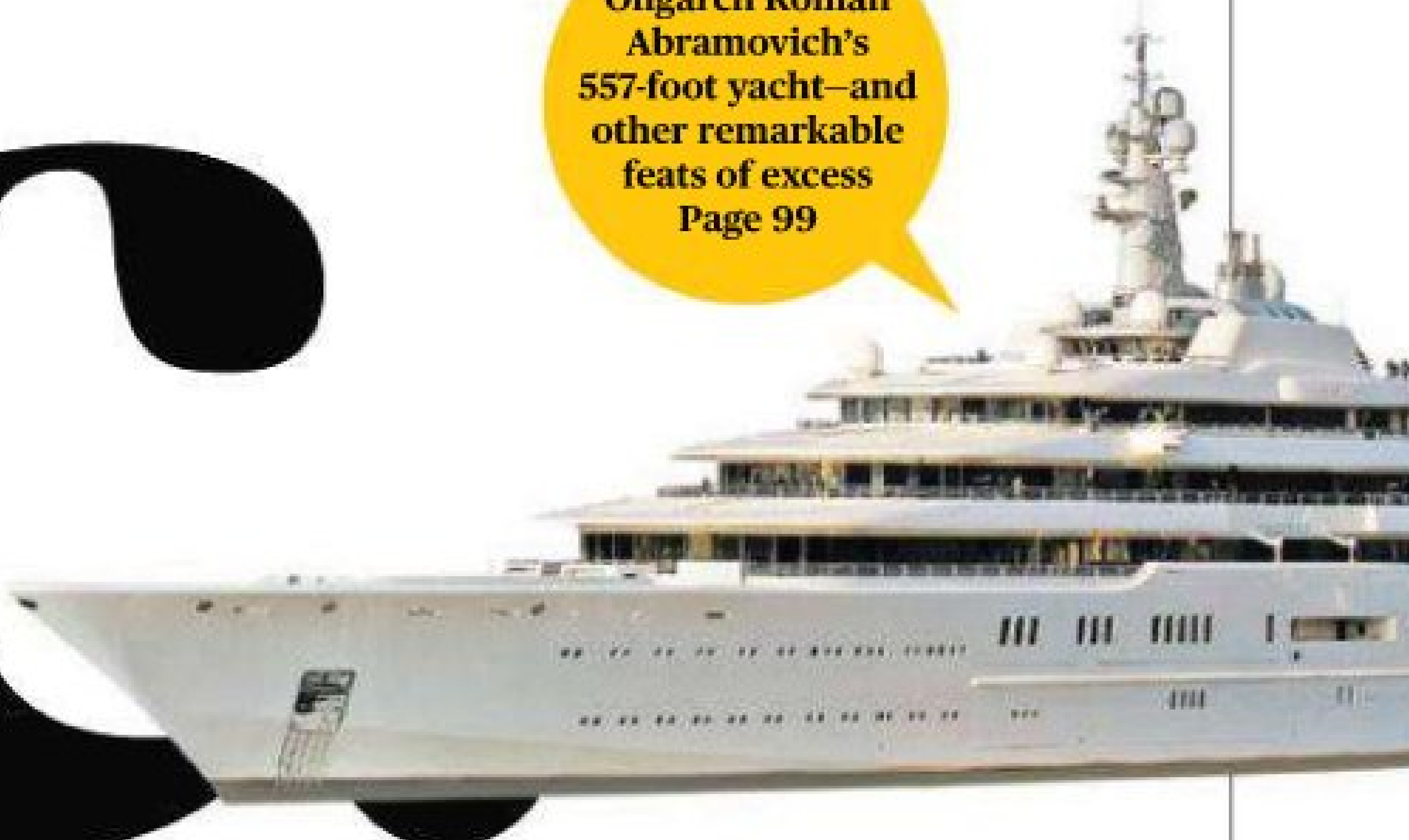
StoreMags

They wouldn't eat these on *Sex and the City*. Page 94

Bowl Madness & Dude Cupcakes & Watches

Etc.

Oligarch Roman Abramovich's 557-foot yacht—and other remarkable feats of excess
Page 99



Mannheim Steamroller* Rules Christmas



*Yes, that kitschy yuletide-themed New Age group. Except now they're a fully branded corporate juggernaut. *By Paul M. Barrett*

Photograph by Dilip Vishwanat

BOAT: JOERN POLLEX/GETTY IMAGES

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Etc. Mannheim Steamroller

Reclining on a leather seat in the cabin of his personal jet, Chip Davis gazes out the window and muses aloud about whether he'll winter at his place in the Florida Keys or his new digs on the coast of Panama. Up front, his two full-time pilots steer the Rockwell Sabreliner toward Columbia, Mo.–the site of tonight's gig–as Davis' marketing and logistics people discuss future shows in Independence, Mo., and Cedar Rapids, Iowa. Unlike other graying rockers, Davis hasn't kept the cash flowing with a VH1 reality show, a turn on *The Apprentice*, or a maudlin memoir. He makes his money by zealously managing an empire of middle-aged fans who live to hear his band's yuletide-themed New Age tunes.

As founder and former front man of the group Mannheim Steamroller, Davis, 63, has created a miniature corporate juggernaut, with two touring troupes playing 90 performances in 77 cities this November and December. When his jet lands, a Lincoln Navigator whisks Davis and his retinue to a sold-out Jesse Hall on the campus of the University of Missouri. It's been a busy week, with performances at the Macy's Thanksgiving Day Parade and a two-hour ice skating extravaganza in Rapid City, S.D., televised on NBC. When the curtain rises in Columbia, "the Roller," as Davis calls his act, kicks into a thumping *Hark! The Herald Angels Sing*. The crowd of 1,600, many in Christmas sweaters, cheers.

In the heartland world of irony-free holiday rock, Mannheim Steamroller rules Christmas. Its music––think John Williams meets Supertramp meets Bing Crosby–combines lute and harpsichord with trilling synthesizer, throbbing bass, and a rock backbeat that might be described as insistent. Jon Pareles of *The New York Times* once dismissed Mannheim Steamroller as "Muzak with pretensions," yet over the past quarter century the Roller has sold 38 million records, mostly Christmas collections. It is the music industry's No. 1 seller ever in the lucrative holiday category. No. 2 is a guitar-strumming singer-songwriter named Elvis Presley.

The Roller is the top-selling act *ever* in the holiday music category. No. 2? Elvis

When Davis first tried to land a record contract in the 1970s, major labels turned him away. So he started an outfit called American Gramaphone in his adopted hometown of Omaha. With studios near his 150-acre farm, American Gramaphone has a lean staff of 12 employees and a small army of contract workers. Over the past 25 years, setting aside concert sales, consumers have spent half a billion dollars on Mannheim recordings. That translates into four multiplatinum records, eight platinum, and 18 gold. From his website, Davis sells "the Mannheim lifestyle": branded apparel, children's books, steamroller-shaped Christmas ornaments, and food products including cinnamon hot chocolate, Nebraska steak seasoning, and cherry chutney. His concert tickets go for $50 a pop.

Marilyn and Paul Andre, a teacher and state employee, respectively, attended the show in Columbia. Beforehand they browsed the merchandise table and bought a $20 *Mannheim Steamroller Christmas 25th Anniversary Collection* CD. "I just love their sound," Paul says. "It's lively, upbeat, good rhythm." Like a lot of Mannheim fans, the Andres still buy CDs rather than online downloads. And while they've cut back on concerts because of tough economic times–neither has had a raise for several years–the couple still has its priorities. Marilyn says: "We wouldn't miss Mannheim Steamroller."

Marketing Mannheim

The band sells its own Christmas ornaments...





...numerous branded mugs...



...roller hair products, and aromatherapy candles



A transfixed concert crowd in Columbia, Mo.

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

A bassoonist, pianist, and drummer, Davis' most impressive skill is marketing. He grew up in Sylvania, Ohio, and graduated with a music degree from the University of Michigan in 1969. In his twenties he toured with the Norman Luboff Choir and taught junior high school before landing a jingle-writing job in Omaha. *Convoy*, a novelty tune he co-wrote for a country singer who performed as C.W. McCall, became a hit. The song helped spawn a CB-radio craze and a Hollywood movie starring Kris Kristofferson. Davis decided, however, to pursue his real passion: what he calls "18th-century rock and roll." He came up with a band name that sounded vaguely heavy metal, but actually referred to an orchestra in Mannheim, Germany, known for lush crescendos–a veritable "steamroller" of sound. The first iteration of the Roller produced a series of records called *Fresh Aire I*, *Fresh Aire II*, and so on. *Fresh Aire VII* (1990), a musical study of the number seven, won a Grammy for Best New Age Recording. Lacking major label interest, Davis gave away his music to high-end stereo retailers, who used it to demonstrate the range and clarity of their expensive equipment. The fan base grew. As *Billboard* magazine declared in 1999: "It can rightly be said that Davis pioneered what is now called Adult Contemporary."

The Christmas franchise began in 1984. Davis arranged Rollerized versions of *Greensleeves*, *White Christmas*, and *Little Drummer Boy*. He supplemented the set list with selections from his bottomless trove of original compositions. Davis steers clear of religion. "I'm not preaching anything or pushing beliefs," he explains. "I like family and Christmas tradition, and I think a lot of people like to remember Christmas from when they were kids."

The concerts feature six Mannheim players, a string section, and numerous references to CDs for sale in the lobby

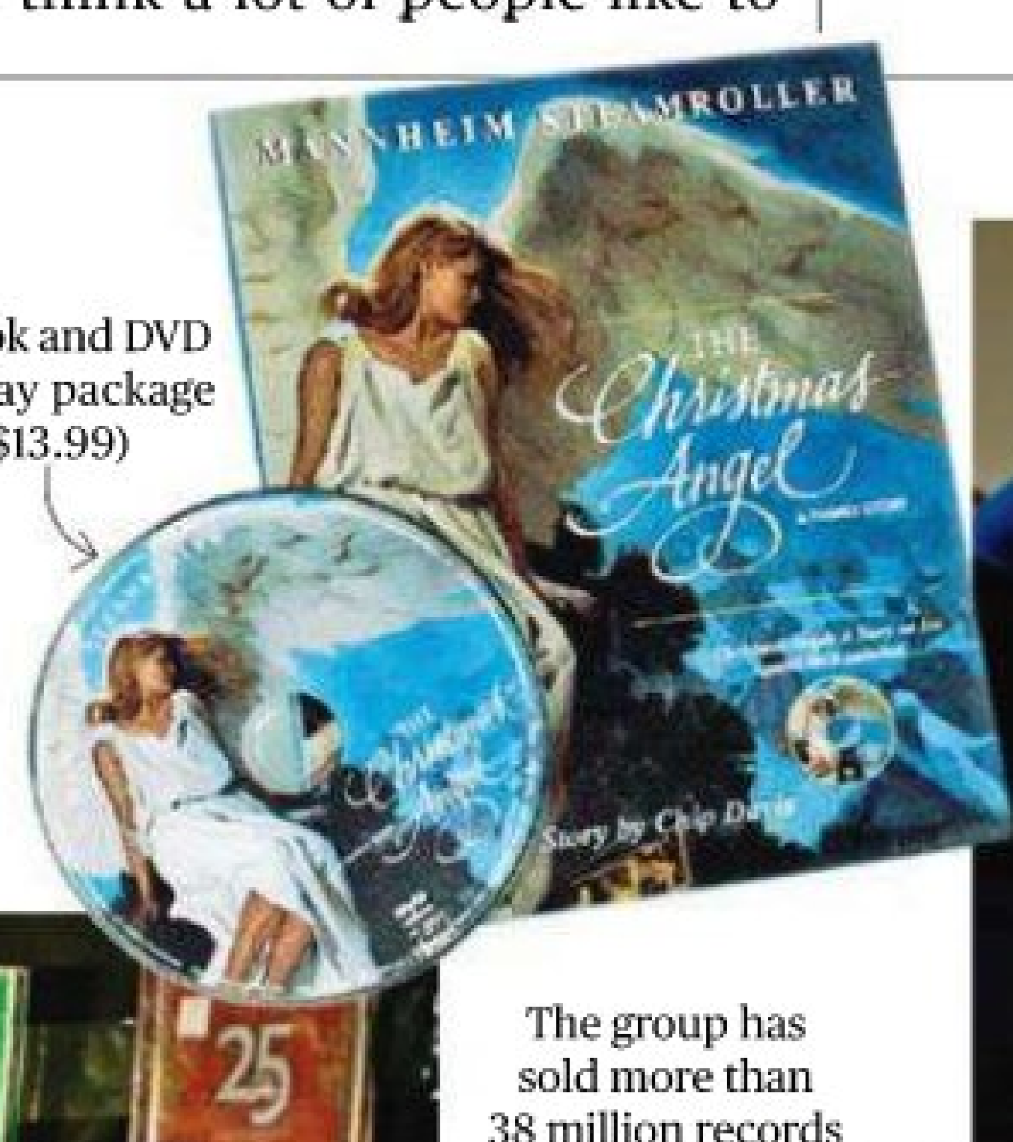
His home near Omaha, a large chalet of his own design with Greek columns in front, has a childlike aura bordering on that of Michael Jackson's Neverland Ranch. There are models of planes and spaceships, replica medieval swords, and dreamy paintings of mythological subjects, some of which double as Mannheim album covers. Out back, workmen are building a large fenced-in enclosure for newly acquired pet wolves named Seth and Seti. The wolves receive daily training from an animal behavior expert and Davis' intrepid German shepherd, Thor. The ducks and wild turkey housed nearby seem oblivious to the potential peril. In California, Davis keeps Storm Shadow, a three-year-old Warlander show horse, which has won Grand National and World's Championship titles.

Neck surgery two years ago ended Davis' performing days, but he still jets around to oversee shows, each of which features six Mannheim Steamroller players, a local pickup string section, Christmas videos projected onto huge screens, and numerous references to CDs available for purchase in the lobby. The venues range from 1,500 to 4,000 seats.

Davis, who has three children, went through a tough divorce two years ago that he says left him with emotional bruises and composer's block. Six months ago a new relationship with a younger woman in Panama melted his mental ice, inspiring him to write a soulful instrumental for piano, 12-string guitar, and French horn. Entitled *Finally*, it will anchor a forthcoming album, *True Wilderness*. Davis seems on the verge of a new creative phase, and given his sales track record, Roller devotees are likely to be pulling out their wallets. **B**



Davis' cherry chutney ($5.98)



A book and DVD holiday package ($13.99)



The group has sold more than 38 million records



Many fans buy CDs instead of downloads. (They also prefer holiday-themed sweaters)



Cinnamon hot chocolate ($7.98)



Pepper sauces ($5.98 a bottle)

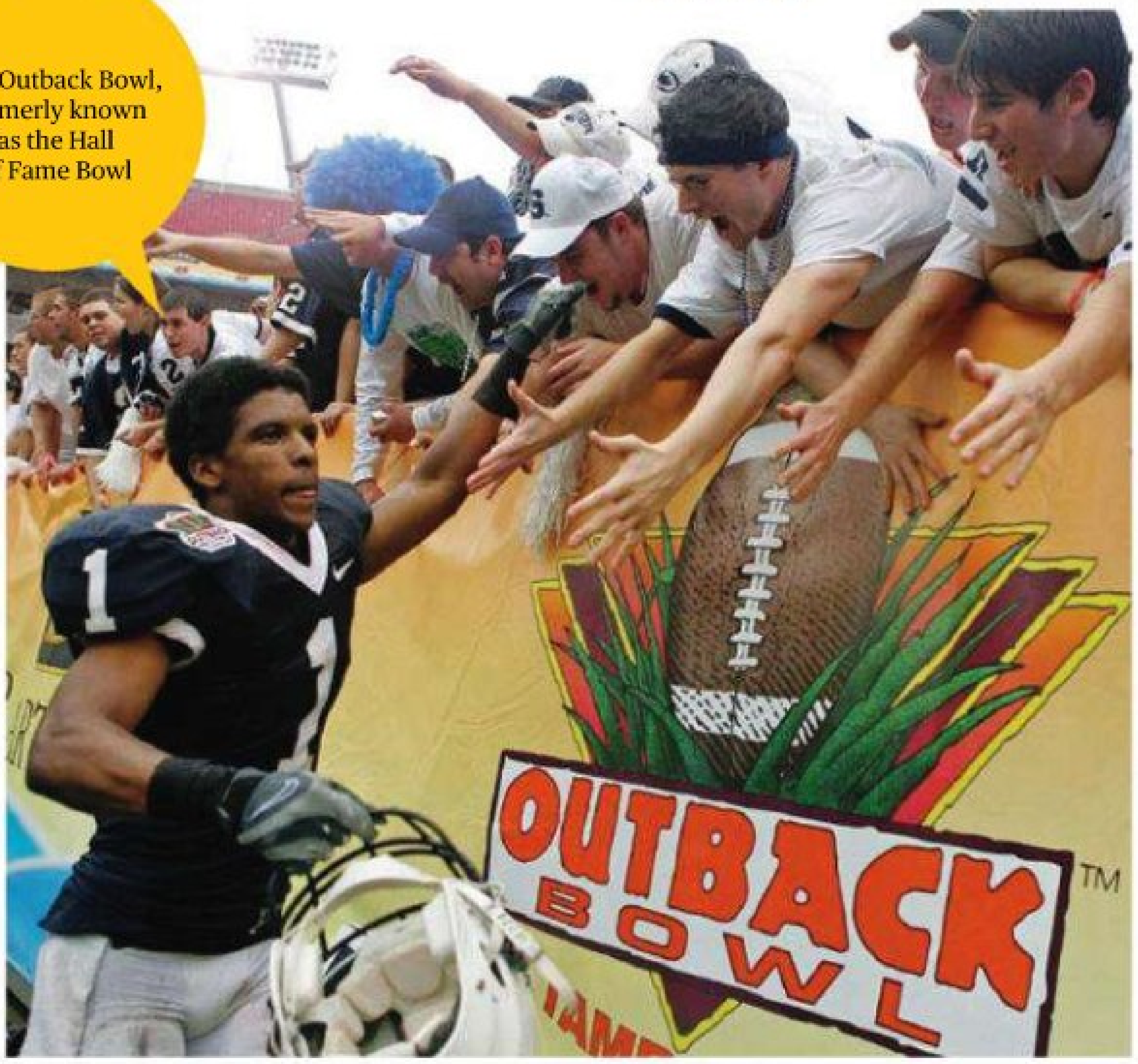
EVENT PHOTOS: PHOTOGRAPHS BY DILIP VISHWANAT FOR BLOOMBERG BUSINESSWEEK

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags



The Champs Sports Bowl trophy



The Outback Bowl, formerly known as the Hall of Fame Bowl



A Whole Lotta Bowl

Like many sports traditions, the college bowl system keeps getting bigger—and sillier. *By Joel Stein*

In David Foster Wallace's futuristic 1996 novel *Infinite Jest*, years are no longer referred to by numbers: You just have to remember that Year of the Perdue Wonderchicken comes after the Year of the Trial-Size Dove Bar. This is only a little weirder and a little less funny than what has actually happened to college football. The Peach Bowl is now the Chick-fil-A Bowl, the Citrus Bowl is the Capital One Bowl, and the Motor City Bowl is the Little Caesars Pizza Bowl. Other teams will be competing at the Outback Bowl, the Insight Bowl, the MAACO Bowl Las Vegas, the Meineke Car Care Bowl, the Kraft Fight Hunger Bowl, the Military Bowl, and the Beef 'O' Brady's Bowl. You know sponsorships are a little too easy to come by when a chain restaurant known for its chili is willing to put its name that close to the word "bowl."

Unlike other major sports governing bodies, college football's—the National Collegiate Athletic Assn.—doesn't run its own postseason. Instead, it allows private companies to start their own bowl games, invite teams to play, and then—if they choose—bring on weird sponsors. It's such a free-market system that Dan Wetzel, co-author of the new book *Death to the BCS*—meaning the Bowl Championship Series, the organization that runs the bowl system—says, "I could start a bowl."

Alabama will play Michigan State in the 2011 installment

"Other than to see their own team, nobody says, 'I have to go to the Humanitarian Bowl!'"

The current bowl system is unpopular with just about everybody. Only 26 percent of fans like it, according to a Quinnipiac University poll. Barack Obama and John McCain campaigned against it, and it pulls in a lot less money than a March Madness-type playoff system would. "It's the only business that outsources its most profitable product," says Wetzel. "Other than to see their own team, nobody says, 'I have to go to the Humanitarian Bowl!'" While no other business would spend decades investing in a program only to hand it over to a third party—in Boise, no less—dozens do every year despite a murky payoff. Says Wetzel: "There's nothing like holding up a trophy from the galleryfurniture.com Bowl."

With 70 teams playing in bowl games this year, lots of stadiums will be pretty empty. While bowls can profit from requiring schools to buy blocks of full-price tickets to sell to fans, few institutions can unload their bounty—particularly when they're playing in a bowl in Idaho. Even at the non-ridiculous 2009 FedEx Orange Bowl (now the Discovery Orange Bowl),

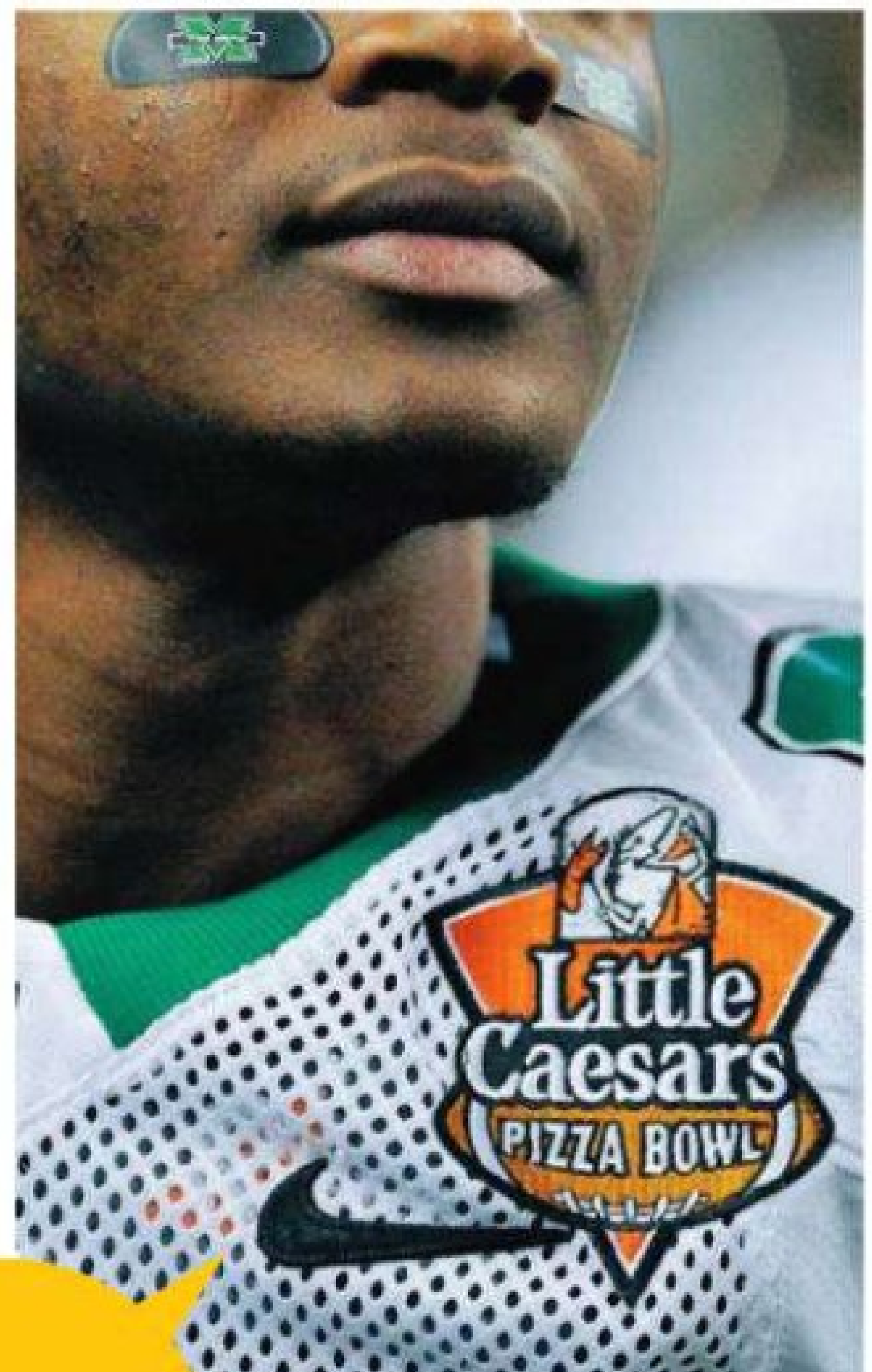
StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

In 2006, Chick-fil-A became the first sponsor to take over the entire name of a bowl game





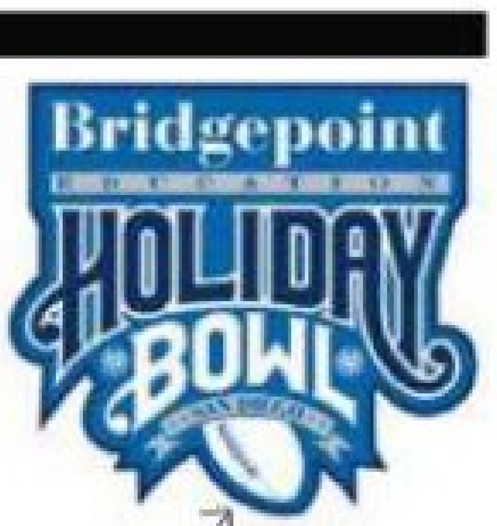
The erstwhile Motor City Bowl

Virginia Tech sold only 20 percent of the 17,500 tickets it bought for $120 apiece. It lost $1.77 million.

Still, virtually all colleges play along, often so they can tell recruits and donors they went to a bowl game—even the Beef 'O' Brady's Bowl. And many coaches and athletic directors, who run the bowl system, get bonuses for getting their teams into a bowl—even the Beef 'O' Brady's Bowl. "These bowls are a scam," says Brian Frederick, executive director of the Sports Fans Coalition, a lobbyist group. "They make money by selling names to sponsors. That's why you get these awful names. The uDrove Humanitarian Bowl? What the hell is that?" It's a bowl game in Idaho.

Frederick is one of several lobbyists in an industry you might think would need none. Ari Fleischer, former press secretary to President George W. Bush, works for the BCS. Playoff PAC, a political committee focused on the college football postseason, lobbies against it. Representative Joe Barton (R-Tex.) held antitrust hearings against the BCS last year, and Senators Orrin Hatch (R-Utah) and Max Baucus (D-Mont.) are trying to end the BCS system. (Their home states have universities currently in conferences without automatic bids to bowl games.)

The biggest company backing the current system is ESPN, which airs 35 bowl games and owns seven of them, including the Bell Helicopter Armed Forces Bowl, the BBVA Compass Bowl, and, yes, the St. Petersburg (Fla.)-based Beef 'O' Brady's Bowl. "Our No. 1 goal is to find a multiyear relationship with a sponsor. We don't want to be in the rebranding business every other year," says Pete Derzis, senior vice-president and general manager of ESPN Regional Television.



Nebraska faces Washington on Dec. 30

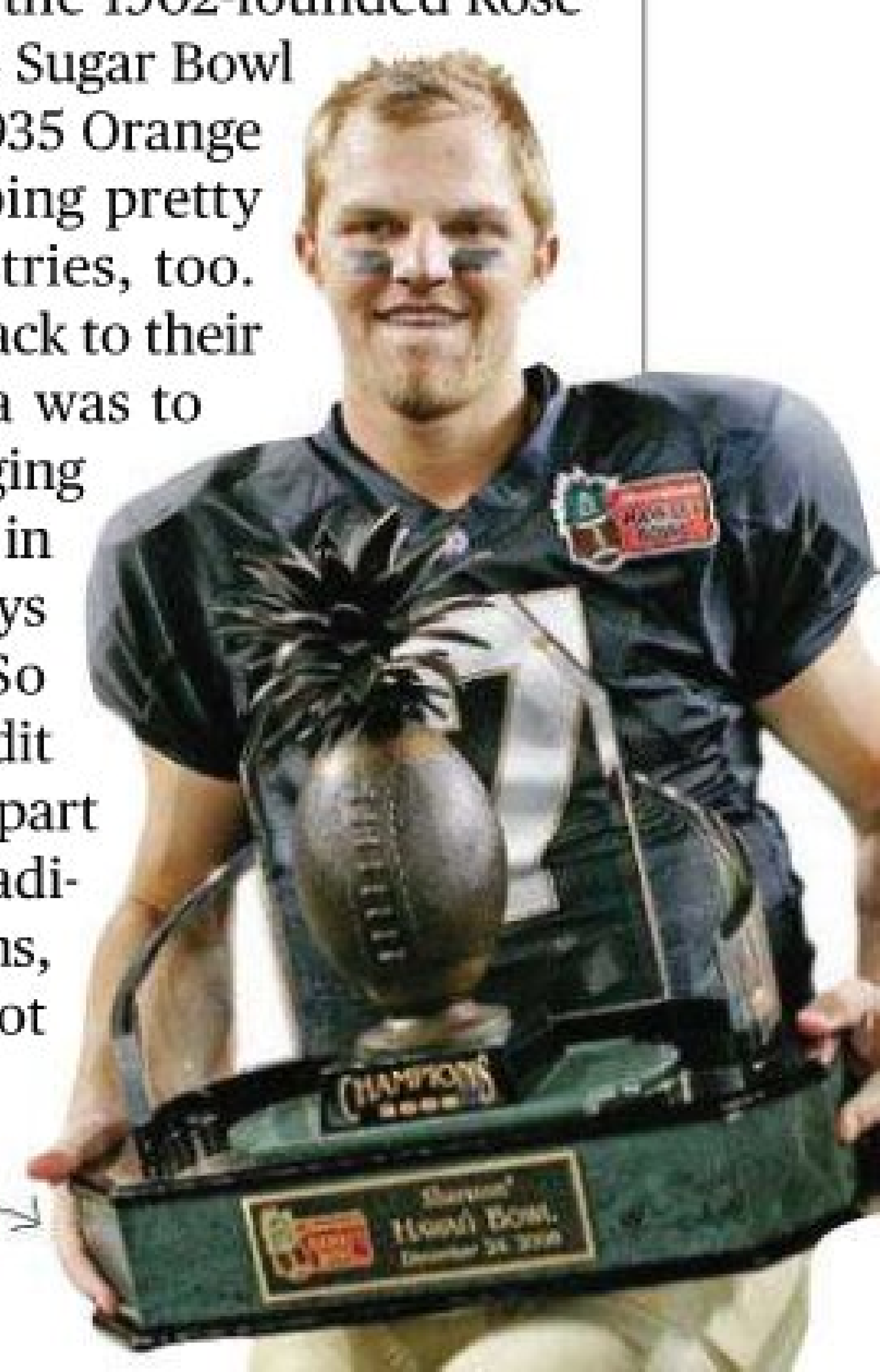
"They make money by selling names to sponsors. That's why you get these awful names"

Having a sponsor take over the entire name of the bowl, he says, started with the 2006 Chick-fil-A Bowl, which felt the press was chopping off the beginning of the officially named "Chick-fil-A Peach Bowl." It was a stroke of evil genius. ESPN says it has never had a sponsorship name rejected by the NCAA. "We have our own filter," says Tom Hagel, senior director at ESPN. "When you're in the bowl business, it's almost like you're buying a house in a neighborhood. You don't want a real bad house in the neighborhood."

It is, however, a neighborhood big enough to have included the CarQuest Bowl, the California Raisin Bowl, and, starting this year, the GoDaddy.com Bowl—which used to be the GMAC Bowl until the U.S. government decided the name wasn't worth taxpayers' money. Known for its racy commercials, the Internet domain registry company's proposed sponsorship "received some discussion," says Nick Carparelli, chair of the NCAA football issues committee. "But in the end the NCAA is not in the censorship business. Bowl games are independent businesses."

For many sponsors, business is good. When AB Electrolux Home Products pulled out of the Independence Bowl in Shreveport, La., locally based Poulan WeedEater sponsored the game from 1990 until 1996, when the bowl moved to North Carolina. "Overall, it was a net benefit," says Evin Ellis, the company's marketing communications manager. "We consider WeedEater the Kleenex of weed whacking." Perhaps, but the sponsorship did have a lasting effect: "Weedwhacker Bowl" now refers to a college bowl that no one really cares about. And while such a fate could befall the GoDaddy.com Bowl, the company's chief executive officer, Bob Parsons, believes the sponsorship will drive traffic to its website. Says Parsons: "We don't do anything that doesn't make money."

The "GoDaddy.com Bowl" might not have the luster of the Masters, but the 1902-founded Rose Bowl in Pasadena, the 1935 Sugar Bowl in New Orleans, and the 1935 Orange Bowl in Miami were pimping pretty hard for their local industries, too. "If you trace bowl games back to their beginning, the whole idea was to stimulate tourism by bringing together two college teams in different communities," says the NCAA's Carparelli. So the San Diego County Credit Union Poinsettia Bowl is a part of a century-old sports tradition. And like many traditions, over time it has gotten a lot bigger, and a lot tackier. **B**



Jimmy Clausen, a Sheraton Hawaii Bowl champ

FROM LEFT: SCOTT HALLERAN/GETTY IMAGES; MARK CUNNINGHAM/GETTY IMAGES; MARCO GARCIA/AP PHOTO

StoreMags - Free Magazines, Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

The Tech Gadget Personality Guide

A gizmo for the most persnickety people on your holiday list.

By Rich Jaroslovsky

What do you do when everyone on your holiday list has an iPod and a Flip videocam? Fear not. While the proliferation of personal tech gadgets may confront you with a bewildering array of choices, the good news is that there's a product for every personality on your list.

1. THE MANIC ROAD WARRIOR: Verizon has leapt into the world of 4G with its new network in 38 metropolitan areas and 60 airports. Laptop users can plug into speeds five times greater than 3G with the *LG VL600 USB Modem* ($99.99 with a two-year contract).

2. THE MOBILE MEDIA JUNKIE: For anyone who travels with a Bluetooth-enabled device, *Aliph's Jawbone Jambox* ($199) is a blackboard eraser-size wireless speaker that fits in a briefcase, plays music and movies, and catches every pig grunt in Angry Birds.

Get creative with your gift list—nothing says Happy Holidays like a robotic vacuum

3. THE GAMER: Imagine playing Xbox- or PlayStation-quality games—without the Xbox or PlayStation. That's the idea behind the *OnLive Game System* ($99). Games reside in the cloud and are played over the Internet. Players will wish the adapter used Wi-Fi instead of a cable, but a new $9.99-a-month, all-you-can-play service promises big savings.

4. THE CHIC AUDIOPHILE: The *Cue Acoustics Model v1* ($399) packs a lot of volume and beautiful sound into a handsome, compact box that also includes an integrated iPhone/iPod dock.

5. THE TV CONNOISSEUR: The dumbest thing holding back 3D TV is that you can't use one manufacturer's TV with another's 3D glasses. *XpanD's X103 Universal Glasses* ($129) work with sets from 10 companies. It's a bit of a hassle to change the settings from one TV to another, but it's a step toward liberation from the tyranny of specs.

6. THE NEAT FREAK: *Neato Robotics' XV-11* ($399) is the latest look-Ma-no-hands vacuum cleaner. Using a laser sensor to create a map of its surroundings, the XV-11 plots its path and minimizes collisions. **B**

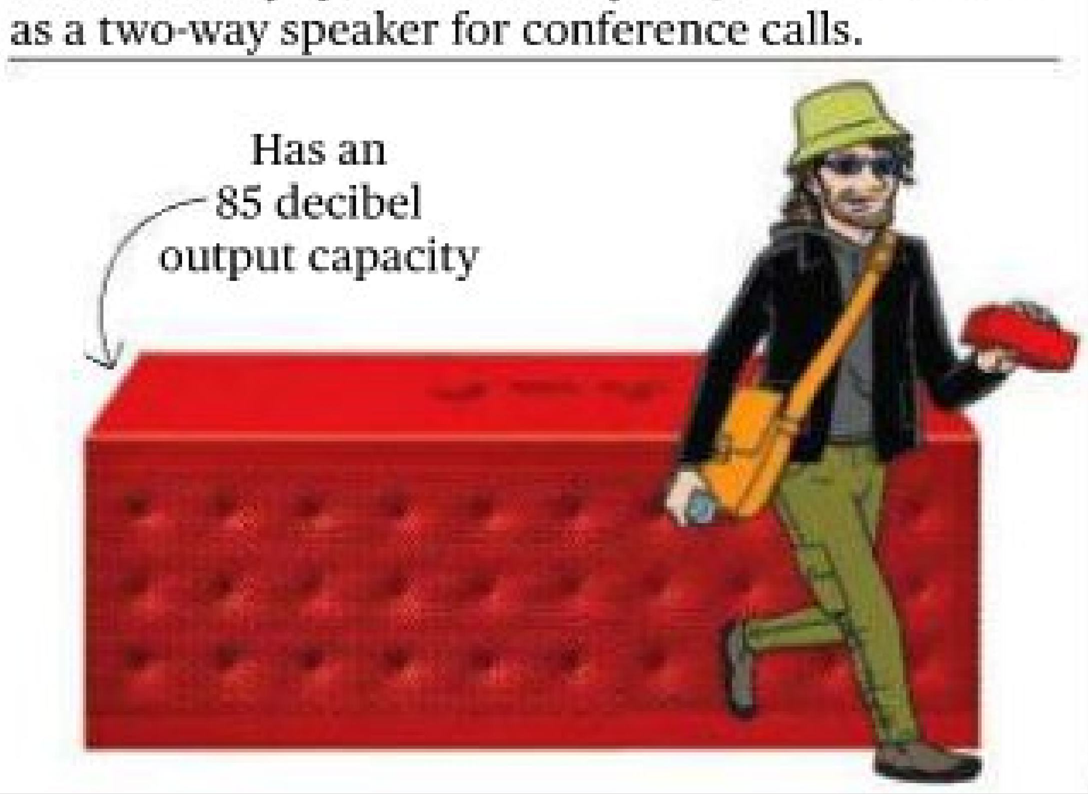
❶ LG VL600 USB Modem ($99.99)

Look for new smartphones to take advantage of Verizon's 4G network early next year. How long until one of them is an iPhone?



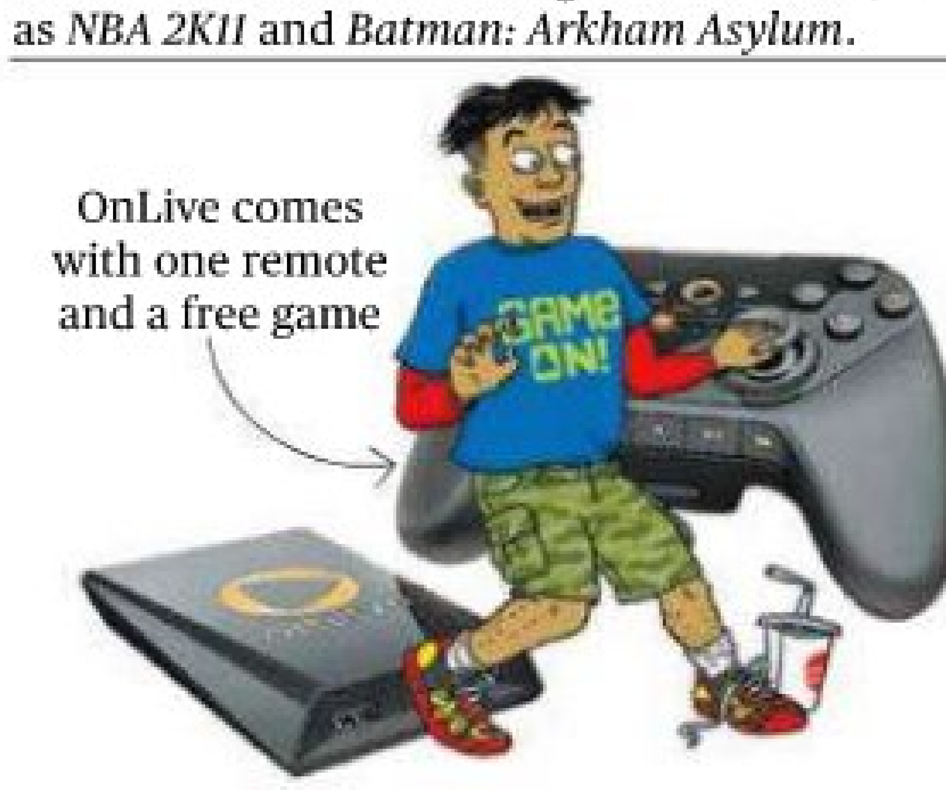
❷ Jawbone Jambox ($199)

When you're tired of blasting Katy Perry in your hotel room—yup, we're on to you—Jambox doubles as a two-way speaker for conference calls.



❸ OnLive Game System ($99)

OnLive's initial selection of games is limited, but it does have some recognizable names, such as *NBA 2K11* and *Batman: Arkham Asylum*.



❹ Cue Acoustics' Model v1 ($399)

For an additional $99, Cue's s1 satelite speaker provides extra stereo separation. Like the v1 dock, it is handmade in Massachusetts.



❺ XpanD X103 Universal 3D TV Glasses ($129)

In addition to working with sets from 10 manufacturers, XpanD's universal glasses can be used in movie theaters utilizing the XpanD system.




❻ Neato Robotics XV-11 Vacuum ($399)

When the XV-11 senses it's running low on power, it scuttles back to base for a recharge before venturing out again to finish the job.



ILLUSTRATIONS BY WARD SUTTON

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All



StoreMags
StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags

The Macho (Cupcake) Man

Before he was an attorney (or cupcake-maker), Arrick acted in soaps and was a personal trainer; Conan O'Brien was a client

A former real estate lawyer whips up pretty cupcakes—for dudes.

By Ryan Bradley

David Arrick became Mr. Cupcake not out of a desire to bake or an affinity for frosting but "out of anger and frustration." It was fall 2008, and he'd lost his job as a Manhattan real estate attorney, his home in New Jersey, and a huge portion of his savings. He'd also just turned 40. At this low moment Arrick walked by a certain venerable bakery—a familiar stop on *Sex and the City* bus tours—in his West Village neighborhood and saw a line of women around the block. "Freaking cupcakes," he thought. "What if I made them manly?"

Arrick wrote up a business plan and used the $10,000 in his 401(k) to launch Butch Bakery in late 2009. He hired a bakery consultant (Janice Kollar, winner of the Food Network's Ultimate Recipe Showdown), rented a commercial kitchen by the shift, and brought on a publicist. Arrick spent $2,000 to develop a website to sell his masculine cupcakes, and, working out of his apartment, scoured the Internet for employees and supplies. Orders trickled in through word of mouth, mostly from the fashion world—which, somewhat inexplicably, has long been a booster of the cupcake trade. Then, in February, Arrick was featured on the e-mail newsletter DailyCandy. "After that," he says, "everything changed."

In the months since, he's signed a book deal with Wiley, ginned up interest in a reality show, and appeared on TV with Rachael Ray. JLo's people even called about an order for Marc Anthony's birthday earlier this year. Arrick now employs a truck driver—"I only hired people laid off during the recession," he says—and four bakers who churn out 300 to 400 cupcakes a week in 12 manly flavors (which include whiskey, rum, and beer), starting at $17.50 for four. Most weeks, Arrick says he sells out.

For now, all the money goes back into the business. Eventually he wants to open up a storefront that he hopes to finance from the reality show, which has production support from the company behind *Pros vs. Joes*. "So much is happening, but I still have zero money," he says. "I was prepared to fail when I started this. Now people come up to me on the street and call me Cupcake Dude. Cupcake Dude! Are you kidding me?" B



Butch Bakery's peanut butter cupcake with banana buttercream and bacon



COOKING UP A PROFIT

1,000 Orders per hour after a Daily Candy article headlined "Buttercream Bromance"	**$250** Weekly cost of liquor (whiskey, rum) that goes in the cupcakes; the chocolate is $200
95% Customers that are women; at least 80% say they're buying for men	**25** Television appearances made by Arrick, including ***The Rachael Ray Show***

DATA: BUTCH BAKERY

PHOTOGRAPHS BY MARTHA CAMARILLO FOR BLOOMBERG BUSINESSWEEK

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags

Roll over your old 401(k) to the firm that *tops Morningstar's list.*

T. Rowe Price recently scored highest on Morningstar's list of the 30 largest fund groups, based on portfolio manager tenure and retention, managers' investment in their funds, their funds' three-year performance, and Morningstar Stewardship Grades. *Past performance cannot guarantee future results.*

T. Rowe Price understands the connections of a complex, global economy. We use our collaborative, global research process to help make the best decisions on where to invest your retirement savings.

To put our thinking to work for you, call our Retirement Specialists or visit our website.

Our Retirement Specialists can help you get started.

- We'll help you understand all the advantages of rolling over your old 401(k).
- We can contact your previous employer and help you with the transfer paperwork.
- We'll help you find the right investment mix. We offer 70 funds for your IRA, with no loads, sales charges, or commissions.

troweprice.com/roll | 1.888.744.5409

T.RowePrice®
INVEST WITH CONFIDENCE

Request a prospectus or a summary prospectus; each includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing. All mutual funds are subject to market risk, including possible loss of principal.

Morningstar *FundInvestor*, June 2010. Morningstar evaluated the 30 largest fund groups (based on asset size) on the following measures: manager retention rates over the last 5 years; average fund management tenure (how long the portfolio managers have managed their funds); fund managers' investment in the funds they manage; 3-year asset-weighted performance of all share classes; and Morningstar Stewardship Grades, which evaluate a fund group's culture, fees, Boards of Directors, manager incentives, and regulatory records. Data used were as of 5/31/10 except for manager retention, which is through 12/31/09. ©2010 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

T. Rowe Price Investment Services, Inc., Distributor. IRAR079329

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Retailers and watchmakers hire so-called mystery shoppers to see how employees handle negotiating with customers



StoreMags - Free Magazines Download in True PDF format

A Dance to the Music of Time

As a "mystery shopper," the author negotiated watch prices in 26 different stores. *By Jane Boon*

It started with an e-mail. Second to None, an Ann Arbor (Mich.) field research company, was looking for people in the New York area who would pretend to shop for a luxury watch, negotiate on the price, then complete an online questionnaire about the experience. Training would be provided, and I was to receive $80 for each negotiation, plus the occasional bonus.

Many companies hire mystery shoppers—just like regular shoppers, except nosier—to find out if their front-line customer service representatives and sales associates comply with corporate guidelines. They hire outfits such as Second to None to oversee the fieldwork; it's a $1 billion industry with more than 250 companies and 1.5 million independent contractors worldwide, according to the Dallas-based Mystery Shopping Providers Assn. I love shopping for watches. And the idea that I might be paid to shop for them trumped my innate fear of e-mails that seem too good to be true—even if I wasn't actually purchasing a watch. (Transactions were ended by, for example, claiming I'd forgotten my credit card.)

We were trained to be likable. Rudeness doesn't work when buying a $20,000 watch

During a five-hour training session in midtown Manhattan, my group of 10 would-be mystery shoppers role-played with a sales trainer whose typical task was teaching sales associates how to close a deal at the highest possible price. Now, she was teaching us how to get them at the lowest possible price. The trainer, who, like the client, remained anonymous, stressed that watch negotiations are generally civilized and friendly. We were trained to be gentle, likable, and patient-verging-on-slow. Rudeness doesn't work when you're buying a $20,000 timepiece. Real buyers savor the experience, and the best price is reserved for favored clients.

On my first assignment, at an independent jewelry and watch store near Wall Street, I got a white-gold-and-diamond Cartier Tank Française reduced by 25 percent after reciting a few polite, rehearsed lines of dissatisfaction. Walking the saleswoman down the price ladder—using questions from "Is there something more you can do for me?" and "Can you offer any price assistance?" to "This isn't what

Release: StoreMags & Fantamag. Magazines for All

StoreMags

I was thinking about; is there any further consideration you can offer?"–got the price from $28,200 to $21,150. Then I trotted out the "ask a higher authority" card: "I'm a bit embarrassed, but I have a hang-up about paying more than $20,000 for a watch. Would your boss consider 19,900?" Done.

Over eight months, I visited 26 stores in four states on both coasts. I shopped for watches from 10 different brands whose retail prices varied from below $2,000 to almost $30,000. Along the way, I learned some unexpected things. At three different Tourneau stores in Manhattan, the sales associates articulated substantially different offers. Two mentioned the company's trade-in program, but only one told me I could bring in any watch in any condition and qualify for a 20 percent savings on almost any watch in the store other than a Rolex. At the Cartier counter at Saks Fifth Avenue, I was offered a 10 percent discount if I opened a Saks credit account–then was told I didn't actually need to open the account to get the discount. After some haggling, I was offered an additional 2 percent off the price of a steel Cartier or 5 percent off the price of a gold one. All the stores were independent, authorized dealers rather than company-owned stores, which are loath to provide any price concessions. The average discount secured was 18 percent.

Only twice did I fail: While shopping for a Cartier in Princeton, N.J., I was unable to improve the price. While shopping for a Panerai in San Francisco, I also hit a wall. Panerai watches are so scarce and so popular that this particular sales associate would not budge. On two other occasions, though, I did secure discounts on a Panerai. It was interesting to see how price discipline varied from store to store.

My work didn't always go smoothly. I arrived at a store in Lawrenceville, N.J., to negotiate for a Cartier only to discover that the store didn't carry Cartier watches. Having driven over an hour and feeling a little saucy, I instead decided to attempt the luxury equivalent of scaling Mt. Everest: negotiating a discount on a Rolex.

The initial price of the Rolex Datejust II was $7,525 before New Jersey sales tax. After a few minutes eyeing the watch, I asked, "Is there anything you can do for me?" The sales associate immediately brought the price down to $6,850. After a few more minutes, I checked with the manager. The price came down to $6,700. My final gambit was to ask if there were any way to get the total price, after sales tax, under $7,000. The manager brought out a calculator, punched some numbers, and–nope. The lowest price–including sales tax–she could offer was $7,085. Still, my 40 minutes in the store translated into a 12 percent reduction, or $966.

Second to None has paid me about $4,000 for my undercover work. While I never brought a watch home, I fear mystery shopping could be a gateway drug. Eventually, I'll spend all that money on a real purchase. At least I'll get a good deal. **B**

OPPOSITE PAGE: SPENCER PLATT/GETTY IMAGES

StoreMags - Free Magazines Download in True PDF format

The Negotiator

How the author bargained down the price of four expensive timepieces



VACHERON CONSTANTIN

Patrimony Traditionelle

$19,800

down to

$15,490

Method:

Visited an authorized dealer in an unexpected area–Los Angeles' Koreatown.



PIAGET

Polo Lady FortyFive Watch

$26,900

down to

$18,830

Method:

Never told the sales associate the preferred price. Instead, asked for the "best" price.



CARTIER

Tank Française, Large

$5,250

down to

$4,300

Method:

Told the sales associate she was willing to purchase the watch that day.



IWC

Pilot's Watch Mark XVI

$4,900

down to

$4,000

Method:

Patience. It took an hour and three rounds of negotiating to nail the price.

Release: StoreMags & Fantamag. Magazines for All

StoreMags

As the economy was collapsing, Thain, O'Neal, and Lewis had other things on their minds



Pimp My Severance

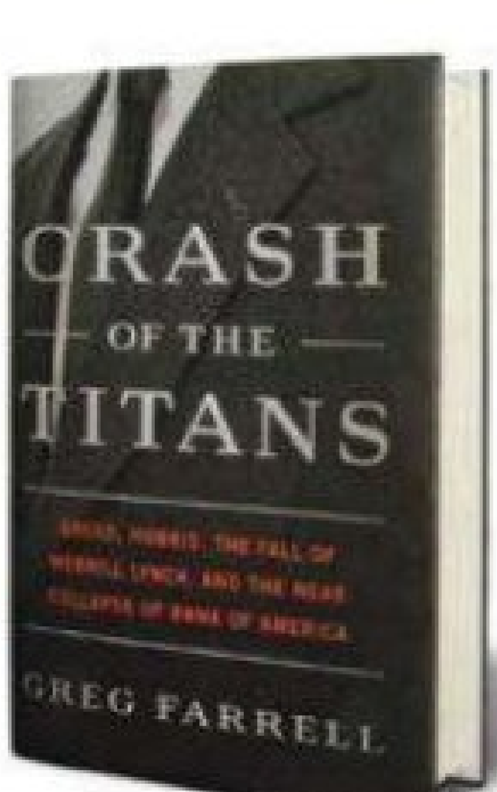
The decline of Merrill, replete with expensed safaris and pricey commodes. *By Devin Leonard*

Sitting in the backseat of his chauffeur-driven car in September 2007, then-Merrill Lynch Chief Executive Officer Stanley O'Neal grew restless. Waiting for him at Manhattan's Time Warner Center was Ken Lewis, the Bank of America CEO and perhaps the only person willing to purchase Merrill and its collateralized-debt-obligation-infested books. It wasn't Lewis—or the fate of Merrill's employees and shareholders—that had O'Neal in knots. As he approached midtown Manhattan, O'Neal couldn't hold it in anymore: After an hour in the car, the guy just had to hit the bathroom.

This is the first of the gossipy revelations in Greg Farrell's *Crash of the Titans*, the latest—and possibly the last—major entry in the seemingly inexhaustible financial-crisis canon. While Farrell ostensibly charts the cataclysmic demise of his subjects, the Houses of Merrill and BofA, he seems more concerned with where O'Neal golfed (the Country Club of Purchase, among others), what he drove (an Audi A8), and where his successor, John Thain, vacationed (Vail). This isn't a bad thing. As the financial crisis' answer to *Game Change*—John Heilemann and Mark Halperin's tattle-filled best-seller about the 2008 Presidential election—Farrell shows that these seemingly trivial matters became the obsessions of Wall Street executives as the subprime contagion spread. At the moment they should have been minding their balance sheets, Farrell claims many of the financial industry's masters of the universe were preoccupied with their bonuses, expense accounts, and office renovations. Some were just looking for the john.

For Farrell, O'Neal is useful in explaining the extraordinary rewards once heaped on executives. The CEO had a private elevator at Merrill's headquarters that he rode to his 32nd-floor office. If, for some reason, he had to take another elevator, employees were expected to vacate immediately. While O'Neal flew on the corporate jet each weekend to his vacation house in Martha's Vineyard, he wasn't shy about billing the company for his lengthier family vacations. Despite being one of the highest-paid executives on Wall Street, Farrell writes that O'Neal

Crash of the Titans: Greed, Hubris, the Fall of Merrill Lynch, and the Near-Collapse of Bank of America
By Greg Farrell
CROWN BUSINESS
480pp, $27



StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags

charged a large part of a 2005 South African family safari to Merrill by arranging meetings with Nelson Mandela and other dignitaries. For all his imperiousness, O'Neal was sent packing with $161 million.

Unfortunately, as Farrell writes, O'Neal's successor picked up the baton. Though he positioned himself as a regular guy who would rescue the firm, John Thain had an equally voracious appetite for excess. Thain hired Michael S. Smith, interior designer to stars such as Steven Spielberg, to redo his new office. Smith came up with a $1.2 million plan that included a $35,000 commode, a $68,000 19th century credenza, and a now-famous $87,000 rug. Although Merrill accepted $10 billion in Troubled Asset Relief Program funds in November 2008, Thain also pestered his board for a $40 million yearend bonus. He noted that Goldman Sachs was following the Street's tradition of showering its executives with cash at the end of the year. "But Goldman is different," John Finnegan, the compensation committee chairman explained. "They have earnings."

By that point, though, the culture of opulence had already spread to levels of tragicomic excess at Merrill. Strategy chief Peter Kraus installed a plasma-screen television in his office displaying a video by the European artist Su-Mei-Tsi depicting street cleaners sweeping sand in the desert. Kraus also adorned the room with another piece of art that looked suspiciously like a bookcase. When one of his colleagues leaned on it, Farrell writes, Kraus chided his guest for failing to treat it like a museum piece.

As a Scotch-drinking Mississippian, BofA's Lewis had reservations about the white-wine-swilling executives on Wall Street. Yet Lewis lusted for Merrill and the Street cred the firm provided. After Lewis bagged his prey, he "paraded Thain around as if he were a trophy." In Farrell's words, Thain was "an exotic creature captured on safari who would now be on display at the bank's headquarters." Of course, this was before Lewis actually looked closely at Merrill's books in early 2009. By then, his directors had had enough of his showmanship. They gave him the boot and a $125 million retirement package.

Farrell, a *Financial Times* reporter who covered Merrill, doesn't provide much sourcing. And given the rampant duplicity on Wall Street that he describes, sometimes it's important to know who's saying what—and about whom. Nevertheless, it appears from Farrell's intimate descriptions of the key players—and their bladders—that many cooperated. (Of course, some don't have much else to do these days.) While their successors might view *Crash of the Titans* as a road map to their own lofty severance packages, perhaps shareholders will read it as a warning. As will swanky interior decorators. **B**

A Century of Executive Excess

History is filled with power players who've proved that they're just as good at spending money as they are at making it. —*Marnie Hanel*

1919 Newspaper baron **William Randolph Hearst** acquires the land where he'll build Hearst Castle. The swimming pool would be redone three times to please him.





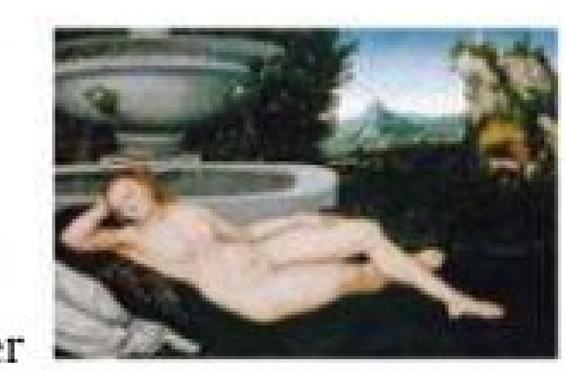
1965 Egypt's gluttonous **King Farouk** dies at age 45. The 300-pound exiled monarch ate 600 oysters per week. The King's jet-setting lifestyle and extravagant spending habits helped lead him into exile.



1987 Real estate queen **Leona Helmsley** is exposed for billing personal effects—from a $1 million marble dance floor to a $45,000 silver clock—to Helmsley Enterprises.



1988 Oxbow Group Founder **William Koch** pays $500,000 for four bottles of wine thought to have belonged to revolutionary and oenophile Thomas Jefferson.



1989 Financier **Saul Steinberg** hosts a 17th century-themed 50th birthday bash complete with live models reenacting his favorite Renaissance paintings.



1990 Real estate tycoon **Donald Trump's** bankers impose a $450,000-a-month allowance to curb his outrageous spending habits, which include the $841,000 monthly cost of maintaining his 282-foot yacht.



2004 Steel magnate **Lakshmi Mittal** purchases the world's then-most-expensive private residence, near London's Kensington Palace, for $128 million.

2006 Google founders **Sergey Brin** and **Larry Page** purchase a former Qantas Boeing 767 jet for $15 million to use as a company plane.





2010 The delivery of Russian oligarch **Roman Abramovich's** 557-foot yacht is delayed because of difficulty finding "ethically sourced" exotic skins for the interior.

OPPOSITE PAGE: ILLUSTRATION BY JORN KASPUHL. THIS PAGE, FROM TOP: MICHAEL ROSENFELD/GETTY IMAGES; JOSEPH SOHM/CORBIS; PETER DAZELEY/GETTY IMAGES; ULTRA.F/GETTY IMAGES; CORBIS; RON GALELLA/WIREIMAGE; ODD ANDERSEN/AFP/GETTY IMAGES; GARY OMBLER/GETTY IMAGES

StoreMags - Free Magazines Download in True PDF format

Bloomberg Businessweek (USPS 080 900) December 13 – December 19, 2010 (ISSN 0007-7135) T Issue no. 4208. Published weekly, except for a double issue in August and one in December, by Bloomberg L.P. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Executive, Editorial, Circulation, and Advertising Offices: Bloomberg Businessweek, 731 Lexington Avenue, New York, NY 10022. **Postmaster:** Send address changes to Bloomberg Businessweek, P.O. Box 8418, Red Oak, IA 51591-1418. Canada Post Publication Mail Agreement Number 41989020. Return undeliverable Canadian addresses to DHL Global Mail, 355 Admiral Blvd-Unit4, Mississauga, ON L5T 2N1. Email: bwkcustserv@cdsfulfillment.com. QST#1008327064. Registered for GST as Bloomberg L.P. GST #12829 9898 RT0001. Copyright 2010 Bloomberg L.P. All rights reserved. Title registered in the U.S. Patent Office. Single Copy Sales: Call 800-298-9867 or email: busweek@nrmsinc.com. Subscriber Services: Call 800-635-1200 or log onto our website: http://www.businessweek.com/custserv/manage.htm. Photocopy Permission: Where necessary, permission is granted by copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923 or email the CCC at info@copyright.com. Custom Reprints: For customized bulk reprints of Bloomberg Businessweek articles, contact The YGS Group at 800-360-5549 or email: businessweekreprints@theYGSgroup.com PRINTED IN THE U.S.A.

Please Recycle This Magazine
FSC MIX Paper FSC® C101537

Release: StoreMags & Fantamag. Magazines for All

StoreMags

Etc. Hard Choices

Vernon W. Hill Jr.

"In September 2008 we had our capital raised on a Friday, and Lehman failed on Monday. ...We had to basically start again."

The Commerce Bank founder on taking his business model to London to create a new retail bank as the Great Recession hit



In 1967, I went into real estate development and found sites for McDonald's. Watching how they made money off Cokes to how they treated customers had an impact on me. I wanted to bring that experience to banking. When I opened Commerce Bank, in 1973, our entire model was about making people happy so they'd give us more business and bring in their friends. That led us to providing coin machines, treats for dogs, better hours, and things like that. We just applied Retailing 101 to banking, and the venture grew to $50 billion in assets.

In June 2007 I got into a fight with regulators and left the bank. Back in the old days, we'd had some transactions with businesses owned by my family. It had all been disclosed and examined, but it became an issue. It was also time for me to leave.

A week after I left, I got a call from Anthony Thomson, who was running a group called the U.K. Financial Services Forum. He wanted me to bring the Commerce model to London. Everyone said this would be the first new High Street bank since 1830. The Brits hate their banks—the customer-dissatisfaction percentage scores for the major banks are in the forties. So I was intrigued.

It took almost three years to open our first Metro Bank branch. In September 2008 we had our capital raised on a Friday, and Lehman failed on Monday. Our investors went up in the air, and we had to basically start again. It would have been easy to give up at that point; what kept me going was the opportunity. People didn't think you could deliver great service and make money, but you just have to get your staff used to the idea that the customer comes first. We opened our first branch in July, and we want to open 200 in greater London by 2020. We've just raised another 1 million pounds to accelerate that rate.

It's hard to get people to switch banks, though the crisis has made that easier as our rivals are forced to scale back. The key to making any decision is to start with the answer. Once you know what you want, you just have to figure out how to get there.

Ⓑ —*As told to Diane Brady*

PHOTOGRAPH BY CHRISTOPHER STURMAN FOR BLOOMBERG BUSINESSWEEK

StoreMags - Free Magazines Download in True PDF format
Release: StoreMags & Fantamag. Magazines for All

StoreMags





Civic Hybrid *Civic Coupe*



Civic Sedan

0.9% APR*

On Select 2011 Civic Models
(for well-qualified buyers)

This should put you in the holiday spirit.

Right now during Happy Honda Days, your Honda dealer is offering great lease and finance options on all Honda vehicles, including the fuel-efficient† Civic—the most durable, longest-lasting car in its class.**

ShopHonda.com

*Available on approved credit through American Honda Finance Corp., 0.9% APR for 24-36 months on new and unregistered 2011 Honda Civic models, excluding Civic GX, through 1/4/11, for well-qualified buyers. Not all buyers will qualify. Higher financing rates apply for buyers with lower credit ratings. Example for Civic LX Sedan (per $1,000 financed and for 0.9% APR): 24 months financing at $42.06/month or 36 months financing at $28.16/month. Dealers set actual vehicle sales price. See dealers for details. †2011 EPA-estimated city/hwy mpg: Civic Hybrid, 40/43; Civic Si, 21/29; Civic LX AT, 25/36. Use for comparison purposes only. Actual mileage will vary. **Durability based on longevity. Longevity based on R. L. Polk & Co. U.S. vehicles in operation registration statistics 1988–2009 for Civic and competing models. © 2010 American Honda Motor Co., Inc.

StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All

StoreMags



StoreMags - Free Magazines Download in True PDF format

Release: StoreMags & Fantamag. Magazines for All